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Assessment 2

WRITTEN REPORT

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MANAGEMENT ACCOUNTING

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Introduction

The field of management accounting is often utilized for internal objectives, such as the development of company policies and decision-making. This particular study, as outlined by Bunea-Bontas (2021), will focus on a specific case study of a company called Amana Ltd., which is owned and operated by a family. To begin, controls reports will be developed for the research. These reports will reflect the initial budget, and the flexible budget. Following this, an examination will be conducted to assess the impact of reducing selling prices while simultaneously increasing costs, and subsequently, recommendations will be provided. In the next section, the study will determine which method of conducting business online is the most effective.

PART A

Amana Ltd. is a family-owned tourism company based in England that caters to travellers by selling keepsakes and other gifts. This research portion will provide a monthly control report outlining the original budget, the flexible budget, and any deviations from the original budget. Amana's performance in 2020 will be reviewed according to this report. Finally, recommendations on many areas for improvement will be made to Amana's Chief Executive Officer (CEO).

1. Control Reports

According to management accounting principles, control reports are generated to help regulate management activities. These reports are designed to detect any deviations from the planned performance, allowing for prompt and appropriate actions to be taken (Bunea-Bontaş, 2021). By utilizing this control report, management can ensure that an accurate assessment of the effectiveness of Amana's internal control over financial reporting is conducted. The original budget was developed for a specific level of activity level lending to evaluate performance since actual activity may differ from the intended level of activity level. 2020).

Amana Ltd.

Original budget

	Amount in '000'
Total Sales	2500
Less: Variable costs	
Materials	(250)
Labour	(400)
Overhead	(150)
Contribution	1700
Fixed overheads:	

Warehouse rental	(200)
Insurance	(100)
Warehouse supervisor salary	50
Total Overhead	<u>1,350</u>

Flexed budget: A flexible budget is developed to determine the percentage of any beneficial cost variation due to reduced activity and the portion due to successful cost control (Misun et al., 2020). As a result, enterprises such as Amana should alter their budget to reflect the actual activity. This adaptable budget illustrates the revenues and expenses that should have been incurred at the activity level, which contributes to a more accurate performance evaluation as well as an improved one.

Amana Ltd		
Flexed Budget		
	‘000’	‘000’
Particulars	70 units	90 units
Sales	1750	2250
Less: Variable costs		
Materials	175	225
Labour	280	360
Overhead	105	135
Contribution	1190	1530
Fixed overheads:		
Warehouse rental	200	200
Insurance	100	100
Fulltime warehouse supervisor salary	50	50
Total Overhead	<u>910</u>	<u>1070</u>

Variances: The difference between the actual budget and either the original budget or the flexible budget is used to determine whether the results were positive or negative (Oyewo et al., 2019). Based on the currently available data, the following is a breakdown of the variances:

Particulars	Original budget (£)	Actual (£)	Variances
	‘000’	‘000’	‘000’
Sales	2500	1,600	900 F
Less: Variable costs			
Materials	250	280	30 F
Labour	400	440	40 F
Overhead	150	120	30 U
Contribution	1700	760	940 F
Fixed overheads:			
Warehouse rental	200	170	30 U
Insurance	100	100	0
Warehouse supervisor salary	50	35	15 U
Total Overhead	<u>1,150</u>	<u>1,145</u>	<u>5 U</u>

Variances at 70,000 units

Particulars	Flexed budget	Actual (£)	Variances
	'000'	'000'	'000'
Sales	1750	1600	150 F
Less: Variable costs			
Materials	175	280	105 F
Labour	280	440	160 F
Overhead	105	120	15 F
Contribution	1190	760	430F
Fixed overheads:			
Warehouse rental	200	170	300U
Insurance	100	100	0
Fulltime warehouse supervisor salary	50	35	15 U
Total Overhead	<u>910</u>	<u>1145</u>	<u>235 F</u>

Variances at 90,000 units

Particulars	Flexed budget	Actual (£)	Variances
	'000'	'000'	'000'
Sales	2250	1600	650 F
Less: Variable costs			
Materials	225	280	55 F
Labour	360	440	80 F
Overhead	135	120	15U
Contribution	1530	760	770 F
Fixed overheads:			
Warehouse rental	200	170	30 U
Insurance	100	100	0
Warehouse Supervisor salary	50	35	15 U
Total Overhead	<u>1070</u>	<u>1145</u>	<u>75 F</u>

2. A report on Amana's performance

Despite the fact that the tourism sector is one that is subject to rapid change, Amana Ltd. has continued to function successfully as a family-owned business throughout the course of the previous four decades. Nevertheless, the pandemic and the following shutdowns have tremendously impacted the tourist industry, including this family-owned firm. Because tourist businesses were unable to carry out their usual activities in April 2020, the money brought in by the firm saw a severe decline during that month. Despite this, revenue slightly increased during the summer of 2020. During these times of reduced activity, Amana Ltd. took two significant steps, which can be summarized as follows:

1. To achieve total sales income, the corporation decided to lower the price at which it sells its products.
2. The price of supplies for the firm rose due to the increase in demand.
3. The selling price was reduced for the corporation to achieve the optimal level of overall sales income.

After these activities have been carried out, we will evaluate them to see whether or not they had a constructive effect on Amana's overall performance. In order to do this, a performance review will be carried out using the performance-enhanced re-engineering (PER) approach. According to Suleic et al. (2019), PER is project management that may assist firms in re-evaluating their operational procedures and facilitating organisational changes in a timely and strategic manner. This can be accomplished through the utilization of the PER. Because of the reasons that were just discussed, the performance of Amana Ltd. will be evaluated utilizing this PER technique.

Reduction of the selling price

During the pandemic crisis, many businesses could not keep themselves in the market, so they could not survive. The implementation of effective strategies and

operations caused this. The company Amana Ltd. has decided to lower the prices at which they offer their products. The key reason for making this choice was to increase the number of customers who do business with the firm, which in turn would hasten the rate at which sales are made and the company's overall sales volume. This is because the corporation believed that if they decreased the price at which they offered the product, they would be able to attract a more significant number of potential customers since they could obtain the same services at a lesser cost (Vanini & Bochert, 2020).

In the instance of the performances of Amana, the business would create money by generating sales based not only on the selling price but also on the amount sold, which was defined by the business. By taking this course of action, the corporation anticipated that it would be able to maintain its position in the competitive market. Even so, the company anticipates that the sales of the company will be boosted as a direct result of this choice. The choice to lower the price at which the product is being sold is, unfortunately, not a strategy that can be maintained. A sustainable sales strategy is not a state that can be frozen in time. Rather, it emerges through time as a result of the sales resources, direct investments, technical progress, and operational transformation necessary to achieve an equilibrium between the company's growth and the market's existing needs or wants (Ke et al., 2020).

Rise in cost of materials

The Covid-19 epidemic has substantially influenced material costs, resulting in price increases and a stronger negotiation stance for suppliers (Suleic et al., 2019). This has resulted in a significant increase in Amana Ltd.'s costs, prompting the firm to focus on reducing other expenses to balance the increase in material costs. This, however, may result in a rise in the pricing of the company's products and services, which may have a detrimental influence on the company's performance (Vanini &

Bochert, 2020). Because the cost of raw materials is critical in defining the firm's entire cost structure, the unpredictability of these costs creates a substantial risk to Amana Ltd.'s operations. It may result in reliability difficulties for the company.

Recommendations

Amana Ltd.'s Chief Executive Officer should consider developing a sustainable pricing strategy that benefits the firm, the environment, and clients to enhance the company's conditions (Misun et al., 2020). This may be accomplished by thoroughly analysing current selling prices and emphasizing the company's long-term profitability. It is vital to remember that the earlier choice to reduce the selling price quickly was a short-term solution that may not have long-term benefits for the company.

Furthermore, the CEO should adequately manage the company's cost structure since a rise in material costs can substantially influence the organisation. This might take a long time and many resources to recover from. To keep expenses under control, Amana Ltd might consider moving to a more cost-effective supplier with a proven track record of keeping commitments. Despite the lower price point, this will help the firm retain its selling prices at a sustainable level while guaranteeing quality control over its products and services.

PART B

According to Amana Ltd., many competitors currently utilize digital platforms to entice customers in the United Kingdom, Europe, and the United States. This business is giving serious consideration to several locations, among which are Brighton, Birmingham, and Manchester. The primary objective of moving the company's products and services online is to streamline the business's entire operations while also shifting fifty percent of the company's sales online. Several essential things to keep in mind about this scenario. Such as:

The online site for the business

When a business decides to expand its operations, several costs must be considered. One of these costs is the cost of setting up a delivery network. This includes the cost of purchasing or leasing vehicles, hiring drivers, and developing routing software to optimize delivery routes.

Another cost that must be considered is upgrading the current website. This may include redesigning the website to improve user experience, adding new features such as e-commerce capabilities, and upgrading the website's security features to protect sensitive customer information (Kieso et al., 2019).

Lastly, businesses must also consider the salary of a full-time IT programmer. As technology advances, it is becoming increasingly crucial for businesses to have a dedicated IT professional to handle website maintenance and troubleshoot any technical issues that may arise. Depending on the individual's qualifications, experience, and location, this cost can vary.

In the case of selling via Amazon

When a business is considering implementing a new strategy, it is crucial to carefully weigh the available options and compare them based on various factors and costs. One high cost to consider is fulfilment fees. Fulfilment fees are the costs associated with storing, picking, packing, and shipping products to customers.

When comparing different options for fulfilling orders, it is essential to consider relative factors such as the location of the fulfilment centre, the speed and reliability of the shipping options, and the level of customer service provided. Additionally, the relative costs associated with each option, such as the cost of renting storage space, the cost of shipping, and the cost of labour, must also be considered.

For example, if a business is considering using a third-party fulfilment centre, it is essential to compare the costs and services offered by different companies. On the other hand, if the business considers fulfilling orders in-house, it is essential to consider the cost of renting warehouse space, hiring additional staff, and investing in equipment such as pallet jacks and shipping software.

The better options and the reasons

When developing a different internet site for the business, numerous aspects must be considered compared to using a platform like Amazon. One of the most important factors to consider is the expense and time involved in establishing and maintaining a distribution network and modernizing the website to ensure efficacy and efficiency in offering excellent services. Amazon is known for offering high-quality and efficiency in this area (Khoa & Huynh, 2020). As a result, it may be difficult for the company to maintain the same quality and efficiency on its website. To continually uphold standards, the company may need to engage a full-time IT programmer to continually monitor and oversee the website and handle any difficulties that develop.

When working with Amazon, however, the company does not have to worry about these concerns; instead, it will confront the obstacle of a lack of control over price and return policy. This implies that Amana will have no control over its need for geostrategy on the Amazon platform, which may affect the company's stipulated pricing. Furthermore, the firm will need help to maintain its return policy, which may negatively impact the company's overall performance and image (Khoa & Huynh,

2020). Even though Amazon may sell fewer products per the promise offered to Amana Ltd, introducing the company's website may result in increased sales of goods and services.

The relative costs of the available options for Amana Ltd

Actions under the alternatives	£
	'000'
Option 1: Putting a brand-new website for the company	
Expenses incurred in the establishment of a distribution network	150
Modernizing the existing website so that it can process a high number of transactions	50
Annual compensation for a computer programmer working full time	35
Total cost	235
Guaranteed sales units annually	100
Option 2: Dealing with Amazon.com	
Amazon fulfilment fees	50
Total cost	50
Guaranteed sales units on Amazon annually	65
Lack of control over pricing and return policy	

According to the data presented in the table, it is clear that the total cost of launching a new website for a business is significantly higher than the cost of using a platform like Amazon. Specifically, the cost is 4.5 times higher. Launching a new

website is the better option despite the higher cost. This is because by launching a new website, the company will have greater control over its pricing and return policy, which can lead to higher sales. Additionally, the company has decades of experience, and the business needs to keep up with the current market situation and embrace digitalization.

Pros and cons of the selected option

As with any decision or opportunity, a business needs to consider both the positive and negative aspects before proceeding (Purba et al., 2021). In the case of Amana Ltd.'s decision to launch a new website, some merits and demerits must be taken into account.

One of the main advantages of launching a new website is that it allows the business to reach a wider audience and establish direct customer interactions. Additionally, having control over its pricing strategy and being able to change it at any time is a significant advantage (Purba et al., 2021). In addition, the organisation is able to manage the feedback provided by consumers and efficiently guarantee the validity of the return policies. The effectiveness and reliability of internet service providers may assist businesses in simultaneously enhancing their reputations and the value of their brands.

On the other hand, the cost of launching a new website is a significant disadvantage. This can affect the products' cost structure and selling price (Nguyen. 2022). Additionally, it will require more phases, activities, and time to be accomplished. This means that the business will need to invest significant time and resources into website development and maintenance, which can be costly and time-consuming.

Considerations of the relative costs

Amana Ltd needs to consider several crucial factors and costs when launching a new website. One of the main costs to consider is launching an online site,

estimated at £235,000. This cost is based on the assumption that the company will be able to sell 100,000 units annually. The costs of setting up a delivery network and upgrading the website are fixed, but the salary of the IT programmer may vary each year, which can lead to an increase in costs.

CONCLUSIONS

The control report gave an in-depth study of the business's budget, including the initial budget, the flexible budget, and comparisons to the actual budget. The favourable and unfavourable circumstances have been discovered and evaluated based on this comparison. Furthermore, the research assessed the effects of lower selling prices and higher costs on the firm and presented practical solutions for addressing these concerns.

Furthermore, the research advocated the establishment of a new internet site for the company, and it weighed the advantages and drawbacks of this option by considering the relative expenses of developing such a site. The study included a detailed breakdown of the expenditures associated with establishing a distribution network, modernizing the website, and employing a full-time IT programmer. It also went through the advantages of opening a new website, such as accessing a larger audience, controlling pricing strategy, and boosting the efficiency and quality of online services.

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