

Assignment 2

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Module code: LCBB5002

Topic: Amana ltd

Management Accounting

Question Part-A

- (i) **PREPARE THE MONTHLY CONTROL REPORT SHOWING ORIGINAL BUDGET, FLEXED BUDGET, AND VARIANCES.**

Amana Ltd

Statement of Flexible Budget

For the period of December 2020 and February 2021

DETAILS	ORIGINAL BUDGET	ACTUAL BUDGET OR	ACTIVITY VARIANCES
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		FLEXIBLE BUDGET	
Revenue	(100,000* 25)= 25,00,000	(80,000*20)= 16,00,000	(2500,000- 1600,000)= 600,000 (Unfavorable)
Less: EXPENSES			
Variable Cost			
Material	(100,000*2.5)= 250,000	280,000	(250,000- 280,000)= 30,000 (Unfavorable)
Labour	(100,000*4)= 400,000	440,000	(400,000- 440,000)= 40,000 (Unfavorable)
Overhead	(100,000*1.5)= 150,000	120,000	(150,000- 120,000)= 30,000 (favorable)
Contribution	(100,000*17)= 17,00,000	760,000	640,000 (Un- favorable)
Fixed Cost			
Warehouse rental	200,000	170,000	(200,000- 170,000)= 30,000 (Favorable)
Insurance	100,000	100,000	(100,000- 100,000)= 0
Fulltime warehouse supervisor salary	50,000	35,000	(50,000-35000)= 15000 (Favorable)
Total Profit	1350,000	455,000	595,000 (Un- Favorable

**(ii) USING YOUR CONTROL REPORT PREPARED IN (I) ABOVE,
PREPARE A REPORT ON AMANA'S PERFORMANCE DURING
THE YEAR 2020.**

**Amana Ltd
REPORT ON AMANA'S PERFORMANCE DURING THE YEAR 2020.**

As we already know that Amana Ltd is a family-owned tourist Business located in England which sells souvenirs to tourists. Amana's revenue took a big hit in April 2020 as tourists could not travel for the Easter holidays, Sales picked up slightly in the summer of 2020; due to a prolonged lock down.

The above Calculated budgeted report tells us the true position of Amana's business. According to the above calculations:-

- ❖ Estimated Sales volume planned by the Amana 100,000 Units which is decreased to 80,000 Units (20% of the budgeted Volume)
- ❖ Activity Variance of Estimated revenue is 600,000 Unfavorable.
- ❖ Material Cost Increased from 250,000 to 280,000 (12%), activity variance 30,000 Un Favorable.
- ❖ Labor Cost Increased from 400,000 to 440,000 (10%), activity variance 40,000 Un Favorable.
- ❖ Overheads Cost decreased from 150,000 to 120,000 (20%), activity variance 30,000 Favorable.

- ❖ Fixed Cost of warehouse decreased from 200,000 to 170,000 (15%), activity variance 30,000 Favorable.
- ❖ Full Time warehouse supervisor salary Cost decreased from 50,000 to 35,000 (30%), activity variance 15,000 Favorable.
- ❖ Total Overall Activity Variance is 595000 (Unfavorable)

(iii) PROVIDE RECOMMENDATIONS TO AMANA'S CEO ON AREAS OF IMPROVEMENT.

Recommendations ON AMANA'S PERFORMANCE DURING THE YEAR 2020.

- ❖ There is a number of areas where Amana's CEO should consider different variances as per the above calculated Activity variances. According to the Amana's early noticed situation of business affected due to the pandemic situation of Covid-19 every business community hurt and Profit margin fall down drastically. And the background of Amana operating a successful business for 40 years and have come to understand the dynamic nature of the

- ❖ Tourism industry. Recently, the Covid-19 pandemic broke out in England leading the government to impose restrictions on movement and travel which severely impacted the tourism industry. Amana's revenue took a big hit in April 2020 as tourists could not travel for the Easter holidays, sales picked up slightly in the summer of 2020; however, the prolonged
- ❖ Lockdown between December 2020 and February 2021 depleted any additional revenue that had been made in the summer.
- ❖ A flexible budget report is prepared for the comparison of Estimated plans and Actual results in which management can find out the reasons where the company lacks. As per the Flexible budget report, there are the following recommendations for the Management of Amana Ltd:-
- ❖ Changes in economic conditions: Due to the Pandemic situation policies of Government and changes in the prices of basic elements of cost including Raw Material, Direct Labor and Indirect labor Varies.
- ❖ Variances may be positive or negative it is very difficult to correct variances because it is part of Business life.
- ❖ Before the recommendations, it is important to clarify that there are two types of variances which are controllable and un-controllable variances.
- ❖ CONTROLLABLE VARIANCES are that can be controlled easily which includes the increasing or decreasing trend of prices of Costs it may be Variable or Fixed cost.
- ❖ As per the flexible plan report, the Estimated Sales volume planned by the Amana 100,000 Units which is decreased to 80,000 Units (20% of the budgeted Volume), for the sake of generation Amana's manager should take such measures like Advertisement and marketing strategies through popular online selling companies e.g Amazon, eBay, Vargale, Handshake, Ruby Lane, etc.
- ❖ If Amana Ltd focuses on marketing strategies through Internet media then Amana's Activity Variance which was estimated revenue is 600,000 Unfavorable. The situation definitely will convert into a positive Activity situation.

- ❖ Activity Variance report of Material Cost Increased from 250,000 to 280,000 (12%), activity variance 30,000 Un Favorable. It is due to a decrease in the prices of available raw material in the market because all the sources of availability of stock like imports and exports are banned due to the unavailability of air flights. I like to recommend to Amana's management that try to buy stock from that type of organization that is ready to sell their stock for a reasonable price or for future contracts it is caused by the decrease in the prices of Materials Cost. Another recommendation about Controlling Material cost is Amana's Management should try to reach the old contractors who provided or supplied in the past it can be positively affected to control the prices of Material Cost. Another recommendation is to try to focus on the cost of Fuel that was drastically decreased during the pandemic situation and management should reach those suppliers whose cost depends upon the Fuelling and petrol. Amana's Management should control over Companies' need to offer a great wage to their laborers to remain competitive within the commercial center. A detailed deficiency of labor implies there are fewer individuals accessible to total projects, which can result in longer days with additional time pay. These costs stream down to individuals who purchase the materials.
- ❖ Amana has been operating a successful business for 40 years and has come to understand the dynamic nature of the tourism industry. Immerse cost increments over the board implies fewer stores to contribute. Companies aren't acquiring as numerous unused hardware instep they're depending on more seasoned models that don't work as productively and take longer to make materials.
- ❖ The second element of cost is and according to the Activity Variance report Labor Cost Increased from 400,000 to 440,000 (10%), activity variance 40,000 Un Favorable. Labor is the other factor for increasing the cost of production. I recommend that Amana's management should focus on the activities of the Labor because Idle time and long lunch time activities directly impact the cost of labor. And 2nd one is that chance of error also gives a bad impact on the

production cost. High turnover is the 3rd one that is not a good impression for the good production because every new labor may not be well-trained and caused the higher wage rate. When new labor enters into the organization he learns new techniques and the environment of the organization.

- ❖ The third element of cost is Overheads Cost which is shown by Amana's Management decreased from 150,000 to 120,000 (20%), activity variance 30,000 Favorable. Overhead change emerges due to the contrasts between Actual overhead changes and the budgeted or the consumed fluctuations. Taken overheads are overheads charged to an item based on an overhead rate, which is the standard overhead retention rate. I recommend not Appointing low grade workers because they are sometimes called indirect Labor and not fruitful for the organization's matter. Another recommendation is overheads include Inadequate training to employees when there is some inadequate training are there it is also a bad impact on the company's Cost. Sometimes Incorrect Instructions given to the company are generating or increase the high cost of overhead. Due to the Pandemic situation, Poor scheduling of production processes is also taking a bad impression on job costing.
- ❖ Fixed Cost of warehouse decreased from 200,000 to 170,000 (15%), activity variance 30,000 Favorable. Warehousing is the craftsmanship of successfully overseeing space and time. Space is seen as taking a toll per month though time is seen through the focal point of length taken for the development of material in and out of the distribution center. I recommend that within the warehousing space, the costing demonstrate contrasts compatible with a customer's needs and there will be a shifted set of prerequisites for each client which incorporates the sort of office (shared or devoted), capabilities, area, and numerous other viewpoints. Independent of the methodology, stockroom suppliers got to share a conclusive fetched for the legally binding period. Amana's s Management should focus on the Land and Office Taken tax The calculation of this raised component depends on whether the office is obtained or leased. Cost is worked out based on a per sq ft rental rate considering the

progress, brokerage, and security stores. I strongly recommend that the Capital cost of Distribution center conveniences such as Material Handling Equipment (MHE), Hand Held Gadgets (HHD), racks, office equipment, etc come under the category of capital costs. Variables to be considered, separated from the fetched of the securities.

- ❖ Another aspect which should be kept in mind that Operation expense: Operational expenses are not fixed but vary and it recurs, say monthly or weekly, based on the usage. In this category are electricity and fuel cost, communication cost, stationery, and consumables cost, and other incidental expenses.
- ❖ Amana's Management should control the Per order or per transaction rate: This rate is fixed after taking into consideration the average volume of inward orders and fulfillment orders that can be performed in a day. Time taken per transaction contributes to this calculation. Another factor that also contributes to this calculation, which is normally not considered, is the type of item that is being handled. Based on the size and the type of the SKU (Stock Keeping Unit), the time taken for a transaction varies.
- ❖ Full Time warehouse supervisor salary Cost decreased from 50,000 to 35,000 (30%), activity variance 15,000 Favorable. I strongly recommend that if Amana Hires a good Supervisor he not only control the extra bearing cost but also can perform the following functions properly:- Overseeing stockroom staff and everyday activities. Managing, assessing, and detailing distribution center productivity. Tracking and planning the receipt, capacity, and convenient conveyance of merchandise and materials. Ordering supplies and keeping up appropriate stock levels. Checking orders, bills, things have gotten, stock, and conveyances for accuracy. Maintaining records, detailing important data, and planning any essential documentation. Ensuring fundamental support benchmarks and compliance with wellbeing and security regulations. Performing a day by day assessment of the stockroom grounds. Coordinating and keeping up armadas and equipment. Communicating and planning with other divisions and customers. Warehouse Administrator Requirements: High school diploma/GED required. Degree in

commerce, administration, coordination's or a related field preferred. Previous encounter as a distribution center boss or a comparable administration position. Strong working information of distribution center operations and management.

- ❖ Currently, Amana's Total Overall Activity Variance is 595000 (Unfavorable). As I already recommend that the company adopts different measures to control the different cost strategies there will be a situation where Amana Ltd can gain handsome profits as they were earning.
- ❖ In the end, I would like to say thanks to Mr. Amana who hired me as a manager and giving me such a great opportunity to examine Amana's Variances and recommendations for the improvement of Different cost sections.

Part-B

IN YOUR REPORT, PROVIDE AN ANALYSIS OF MR AMANA'S DECISION TO GO ONLINE AND ADVISE IF THEY SHOULD SET UP THEIR OWN ONLINE SHOP OR SELL ON AMAZON. YOU SHOULD TAKE INTO CONSIDERATION ALL THE RELEVANT COSTS.

Before the comparison and Analysis of Mr. Amana's decision to go online and advice if they should set up their own online shop or sell on Amazon. First, have look at the intro of Amana Ltd and their recent activities as mentioned. According to the past history of Amana Ltd, they have a family-owned tourist business located in England which sells souvenirs to tourists. They have several locations in tourist hotspots across England namely Brighton, London Bridge, Westminster Bridge, Buckingham Palace, Birmingham city centre, and Manchester city centre. Souvenirs are produced by a Chinese manufacturer specifically according to designs made by the Amana team. They have been operating a successful

business for 40 years and have come to understand the dynamic nature of the tourism industry. Recently, the Covid-19 pandemic broke out in England leading the government to impose restrictions on movement and travel which severely impacted the tourism industry. Amana's revenue took a big hit in April 2020 as tourists could not travel for the Easter holidays, sales picked up slightly in the summer of 2020; however, the prolonged lockdown between December 2020 and February 2021 depleted any additional revenue that had been made in the summer.

Mr. Amana has noticed that a lot of his competitors now sell online to customers in the UK, Europe, and the US. He has been considering closing the Brighton, Birmingham city centre and Manchester city centre branches in order to streamline the business activities and move 50% of their sales online. Several factors have to be taken into consideration when making this decision.

If Mr. Amana takes the opportunity to go Online and manage their online activities then there will be the Estimated Budget of expenses and estimated revenue

Available information For Online Activities

- Cost of setting up delivery network £ 150000
- Cost of Upgrading Current website £ 50000
- Salary of a fulltime IT Programmer £ 35000 (P.a)
- Total Estimated Cost for one Year £ 235000
- Estimated Sales 100,000 (Units)
- It is supposed that the company's policy of per Unit sales price is the same as before which is £ 25

Amana Ltd.

Statement of Estimated Revenue for Online Setup

	Sales / Revenue (100,000*£ 25)	£ 25,00,000
Less	Expenses	
	Cost of setting up a delivery network	(£ 150000)
	Cost of Upgrading Current website	(£ 50000)
	Salary of a full-time IT Programmer	(£ 35000) (P.a)

Total Estimated Revenue

£ 2265000

As per the above calculated estimated total revenue will be £ 2265000 it is quite enough amount as compared with the physical activities of the Amana Ltd Revenue which is estimated Total Revenue £1350,000. The difference between Online activities and Physical activities is £ 2265000 - £1350,000 = £ 915000.

On the other hand, if Mr. Amana Ltd take the opportunity of Selling through the Amazon Platform then there will be the following information of Expenses and Estimated revenue:-

- Amazon fulfillment fees - £50,000
- High levels of competition between Amana souvenirs and other sellers on these platforms – Guaranteed sales of 65,000 units on Amazon annually with the potential to increase depending on demand.
- Lack of control over pricing and return policy
- It is supposed that the company's policy of per Unit sales price is the same as before which is £ 25

Amana Ltd.

Statement of Estimated Revenue for Online Setup

Add/Less	Details	Amount (£)
	Sales / Revenue (65,000*£ 25)	£ 1625,000
Less	Expenses	
	Amazon fulfillment fees -	(£ 50000)
	Estimated Total Revenue with Amazon	£ 1575000

As per the above calculated estimated total revenue will be £ 1575000 it is enough amount as compared with the physical activities of the Amana Ltd Revenue which is estimated Total Revenue £1350,000. The difference between Online activities and Physical activities is £ 1575000 - £1350,000

= £ 225000 also another healthy for the Amana cause Amazon will generate high profit as compared with the Estimated Physical activities.

Before any conclusion, there should be a comparison between three options like estimated physical activities, online setup, and Amazon. Following is the comparative income statement that will definitely show the comparison between the three options.

Amana Ltd
Comparative Income Statement
For the period of December 2020 and February 2021

Add/Less	Details	Estimated Physical Activities	Estimated Plans for Online Setup	Estimated Plans for Amazon Setup
	Estimated Revenue	£25,00,000	£25,00,000	£ 1625,000
Less	Expenses	£1150000	£ 235000	£ 50000
	Total Estimated Revenue	£1350,000	£ 2265000	£ 1575000

As per the above mentioned report, Amana Ltd's Estimated Revenue is 2500,000 while expenses which include not only fixed cost but also the variable cost is 1150,000. While calculated values of Estimated Plans for the online setup total Estimated Revenue will be 2500,000 and expenses will be total 235000 and profit which is calculated 2265000. On the other hand results of Amazon's estimated values shows Revenue 1625000 and total expenses 50,000 after the calculation of expenses results show about the revenue is 1575000.

As per the above mentioned comparative statement, maximum profit generated Business is through online setup maintained and run by themselves which is annual Profit is £ 2265000 after deduction of all expenses. It is a better option for earning point of view because due to the pandemic situation Amana Ltd. is not in a position to generate and attract enough customers to sell their product and survive during Covid-19.

According to the Comparative analysis, my advice for Amana Ltd is should go with the Online setup and maintain themselves and run during this pandemic situation because it is very wealthy and fruitful for the generation of handsome revenue. In the past, Amana Ltd has only traded within physical stores with a functioning website serving as a channel for marketing their business. Now Amana Ltd should change their business strategies according to the situation and develop new plans for the gaining of customers and maximum profit. Due to the prolonged lockdown, it is impossible to generate and survive into the market this the only way for survival to go with an online setup.