

University of Wales
Trinity Saint David

Management Accounting

LCBB5002
LEVEL 5

ASSESSMENT 2

STUDENT 1913405
TERM 1 GROUP 1
NAME ANAMARIA LUPU

LECTURER
WINIFRED SORIBE

February 2021

Table of Contents

Introduction.....	2
1.1 Part A - Control Report for Amana Ltd.	3
1.2 Amana Ltd. 2020 Performance	4
1.3 Recommendations for Amana Ltd.	5
2.1 Part B - Decision Making	8
Conclusion	10
Reference List	11

Introduction

The role of Management Accounting is to facilitate individuals in making an informed business decision (Atrill, et.al, 2018).

The executives Accounting utilizes data from activities to produce reports that provide progressing insight into firm performance, for example, profit margin and labour utilisation for directors to have data-driven intake to make everyday decisions (Freedman, 2019).

Each business looks to augment profits by its activities. Arranged tasks are generally accomplished with the utilization of planned guidelines. These budgeted standards can be viewed as a plan of activity designed by the executives to facilitate accomplish organisational goals (Atrill, et.al, 2018, p.48). A financial plan is a quantitative assertion of assumptions, concerning the assignment of assets and performance.

Variance analysis looks to comprehend the distinction between genuine performance and some arranged or targeted level of performance and is a significant form of organisational feedback (Luckett and Eggleton, 1991).

There are several advantages that associations remain to appreciate when they utilize variance analysis as a tool for performance assessment. As indicated by Putra (2009), such advantages may incorporate to permit cost control and performance evaluation by contrasting actual to budgeted figures.

Cost-volume-profit analysis is a strategy for cost bookkeeping that looks at the impact of the effect that fluctuating degrees of expenses and volume have on working benefit, which can be helpful for chiefs making short-term economic decisions.

As in the recent event of the COVID-19, any epidemic episodes may instantly reduce the flow of inbound and outbound travel industry because of the decision of tourists to not visit certain geographic districts or locations and the public authority limitations to stop the spread of the virus. Coronavirus has paralysed worldwide the travel industry and allowed it to stop, reorientate and reconsider (Lew, et al., 2020).

Regardless of the impact of the COVID-19 pandemic on the travel industry, adaptive methodologies, planned or enacted changes, and acclimations to respond, adapt and boost resilience from the viewpoint of shareholders and managers.

For a more in-depth comprehension of the part of Management Accounting, this report gives an investigation of the Amana Ltd firm and the presentation in the business year of 2020.

1.1 Part A

Control Report for Amana Ltd

Items	Cost per unit	Original Budget (£)	Flexible Budget (£)	Actual (£)	Variance
Units		100,000	80,000	80,000	
Selling price	25	25	25	20	5UF
Revenue		2,500,000	2,000,000	1,600,000	(400,000) UF
Variable costs:					
Materials	2.50	250,000	200,000	280,000	(80,000) UF
Labour	4	400,000	320,000	440,000	(120,000) UF
Overhead	1.50	150,000	120,000	120,000	0
Contribution	17	1,700,000	1,360,000	760,000	600,000 UF
Fixed overheads:					
Warehouse rental		200,000	200,000	170,000	30,000 F
Insurance		100,000	100,000	100,000	0
Fulltime warehouse supervisor salary		50,000	50,000	35,000	15,000 F
Profit		1,350,000	1,010,000	455,000	555,000 UF

1.2 Part A

Amana Ltd. 2020 Performance

According to Horngren et.al (2007, p.345), directors use comparisons between genuine outcomes, master budgets, and flexible budgets for performance assessment. In assessing performance, they attempt to distinguish how much an objective, objective, or target is met and how much an association utilizes suitable measures of contributions to accomplish a given level of output.

The contrast between actual outcomes and the budgeted outcome is alluded to as variance. Okoye (2011, p.312), characterizes variance investigation as "the correlation of foreordained expense information and the memorable expense information to discover the adherence to plans".

In these circumstances, from a financial accounting perspective, the company Amana Ltd is not in a profitable stage. Consequently, in this worldwide pandemic situation, as the control report shows Amana Ltd is passing a very difficult situation with a massive decrease in profit. Being part of a tourist industry business, Amana Ltd was unable to achieve the budget level of activity, mainly because a major part of the revenue is coming from the tourists' sales.

Brown (2012) is of the view that the cycle by which the total distinction between standard and genuine results is investigated is known as variance analysis. Variance analysis can likewise be described as the process toward looking at in detail each variance among actual and planned/expected/standard expenses to decide the reasons why budgeted outcomes were not met.

In an economic sense, the year 2020 was not a wealthy year for most businesses worldwide. In the Covid-19 pandemic, one of the most affected industries remains tourism. In the scenario case, is the main reason for these unfavourable variances from Amana's Ltd budget.

By using variance analysis as a tool for performance evaluation ascertain that there is an unfavourable variance of 400,000 in revenue, this occurs when actual activity is below budgeted activity. Moreover, labour with an 80,000 unfavourable variance (UF) and materials with 120,000 UF increase drastically in comparison with the original budget. Also, based on the facts from the Control Report of Amana Ltd, the actual profit of the financial year of 2020 is 455,000 with an unfavourable variance of 555,000.

Another point to consider is the favourable variance that has had occurred when actual costs are less than budgeted costs. Here is to mention the favourable variance of 30,000 from warehouse rental and the favourable variance of 15,000 from the full-time warehouse supervisor salary.

In this context, radical decision-making, and business investments must be taken into consideration to maximising the wealth of the shareholders.

1.3 Part A

Recommendation for Amana Ltd

The management accounting literature emphasizes the significance of adjusting organisational performance frameworks with strategic objectives (Kaplan and Norton, 2006) as a rule and for ecological objectives explicitly (Dutta and Lawson 2009; Dutta, et al 2012) to accomplish these objectives.

Numerous organizations are endeavouring to accomplish such arrangements. The emergence of sustainability as an integral part of business strategy.

Distinguishing and evaluating the possible strategic alternatives that will lead the business from its current situation to the accomplishment of its goals. Choosing the most appropriate strategic option and formulating long and short-term plans to pursue them.

Evaluating business performance and exercising control by assessing real performance against planned performance.

By using the PER Methodology, we shall look for recommendations for Amana Ltd.

Point: Increase in cost of materials.

Explain: As this is an item-based business, the expense of materials will be a critical piece of their expense structure and should be monitored productively.

Relate: Reported back to the scenario, the costs of Amana's materials have increased in 2020. Given that, souvenirs are their core products, they must ensure that material costs are kept under control without compromising on quality.

In this case, it is suitable for Amana Ltd to consider renegotiating some key contractors. By switching to a cheaper supplier with good track records, without affecting the quality of the finite product.

Another point to consider is the outsourcing production to low-cost countries may reduce costs.

The incorporation of sustainability into a company's fundamental beliefs requires the transformation of mindset and corporate qualities and requires the responsibility of the leadership. Key responsibilities to a broad perspective on sustainability, thus, expect associations to create and implement out execution estimation frameworks fusing these objectives.

In any case, having proactive environmental strategies can positively impact the long-term benefit of a company (Clarkson, et al. 2011).

Point: Reduction of labour hours.

Explain: Regarding the decrease in the number of tourists, to reduce the cost by reducing the labour hours. Implementing a flexible working hour based on the knowledge of the busiest hours or days in a week.

Relate: In the scenario case, the labour costs increase by 120,000 which is an unfavourable expenditure. With regards to the worldwide pandemic, this must reduce, at least in short-run production.

Point: Reduction of the workforce.

Explain: As per Chalos and Chen (2002), organisations may downsize back trying to improve their short-term income. In addition, De Meuse et al. (1994, p. 527) express that "downsizing is more likely to be effective when it is part of an organization's overall long-term strategic planning process".

Relate: In Amana's case, the unconscious cost in difficult times may lead to significant losses in the business profit.

Point: The warehouse rental is 150,000 invariance.

Explain: Presumably, we may gain some benefits in the short run if the landlord of the shop may reduce the rent for a while. In this case, we can focus this benefit on a new strategy for business investments.

Relate: Also, the need to enter into long-term contracts with warehouse owners to ensure rentals are not increased significantly in the nearest future.

Point: Reduction of the selling price.

Explain: Reducing prices of souvenirs may not be a sustainable strategy, but in the short run this could boost consumer purchases. A more sustainable decision is to implement some marketing strategies such as discounts 2 for 1 price, or 20 percent discount for students. However, in the long run, high price led to the entry of new sellers, that can take advantages of the high price if our product is not a necessity for the consumers.

Relate: Coming back to the scenario, a focus on the regional potential consumers is always sustainable for the business. Amana Ltd has reduced price to increase sales due to Covid 19.

Awareness is a strategy identifying with niche products and niche advertises and occurs when the association focusses around a niche or set of related specialty items or focuses on a particular market fragment.

By considering every point, the business may have to set new goals and objectives and open for a more modern way of doing business. Consequently, e-commerce can lead to wider markets and cheaper products. Doing business electronically reduces the supply chain and hence increases convenience, reduces costs, and improves the speed of delivery.

Research shows that for some firms the execution of new technologies has diminished expenses and made it possible to offer more assorted services with fewer employers. Besides, technology can be a source of competence or the benefit to offer something that the rival cannot, for example, 24-hour online deals or services.

Moreover, besides than is an impressive competitive advantage, innovation is likewise a wellspring of coordination and control.

2.1 Part B

Decisions making

Above all, as a manager, when are making decisions involving capital investments, should be predictable with the targets of the specific association. For a private area business, maximising the wealth of the shareholders is ordinarily thought to be the key financial target.

A manager with great knowledge of administrative accountings has a strong decision-making skill, being acceptable at accomplishing cost decreases becomes a organisational target that rivaled the predominantly designing judgments about standards of administration that had recently prevailed (Ogden, 1995, p. 198).

Investor value is viewed as the key objective of most organisations. One methodology used to quantify investor value is economic value added (EVA).

EVA is a method for estimating whether the profits created by the business exceed the requirements returns of stakeholders.

Research shows that there are four techniques utilized by organizations to assess investment opportunities: accounting rate of return (ARR); payback period (PP); net present value (NPV); and internal rate of return (IRR).

It is additionally conceivable to discover organizations, especially more modest ones, that do not utilize any conventional evaluation strategy yet depend rather on the 'gut feeling' of their managers. Most organizations, be that as it may, appear to utilize (at least one) of these four strategies (McLaney, 2018).

The decision-making process in business is the main capacity of a manager, as Peter F. Drucker says that whatever a chief does, he does through decision making.

Decision-making is concluding if to do certain activities. It is cutting of considerations; it is likewise named as that buyer activity is a process of the decision-making course of option is looked over among the few courses of an alternative to arrive at decision (Googlesir, 2020).

As indicated by McLaney (2018), chiefs of UK organizations use investment appraisal techniques; notwithstanding, effective organizations are those that set out a clear strategic framework system for the choice of investment projects.

The best investment projects are generally those that match the business' interior strengths with the opportunities accessible.

Since 1980, Information and communication technology (IGT) improvement had driven the fast development of globalization. In retailing, the electronic points of sales system (EPOS) give immediate data on sale trends, income, and stock levels.

Moving business online is a significant investment opportunity, the costs of setting up an effective e-commerce system are considerable. But in the Covid-19 situation, to survive and modernise, most of the businesses have had moved to e-business.

With patient and by investing in digital marketing considerations, strong content, and powerful advertising campaigns, the investment will return.

Ideally, Amana Ltd will be to implement the decision to start doing e-commerce. When we are making decisions concerning the future, past costs are irrelevant. It is future opportunity costs and future outlay costs that are of concern. An opportunity cost can be defined as the value, in monetary terms, of being deprived of the next best opportunity to pursue the particular objective. An outlay cost is an amount of money that will have to be spent to achieve an objective.

Advantages are those results, coming about because of a strategy, that facilitates a business to accomplish its objectives. Expenses, on the other hand, address the penance of assets expected to accomplish those advantages. For a proposed plan or choice, to be beneficial, the imaginable advantages ought to surpass the related expenses (Atrill, 2018, p.42).

Thus, to be relevant to a particular decision, a cost must affect the wealth of the business. All investments expose their investors to risk, more or less. In the Amana scenario, moving online is a significant investment decision. Investing in setting an online shop, could guarantee sales of 100,000 units annually, which is an important capital return.

In comparison with selling on Amazon, where the capital return guaranteed sales of 65,000 units annually, but with the lack of controlling the selling price and the return policies. Advisable for Amana's Ltd is to open their online shop and start to be creative in terms of digital marketing. Also, could save capital by using the free social media platforms which is more profitable in comparison with Amazon.

From a business viewpoint, technology is can be portrayed as the utilization of accessible knowledge and abilities to create and utilize materials, processes, and products.

An exemplary perspective on technology is that it exists as an environmental constraint, which becomes the dominant feature of all businesses (Baines, et al., 2011).

Conclusion

This study is designed for a better understanding of the role of management accounting in a business. Also, this paper shows how the business environment is impermanent, and to remain competitive, the firm needs to be adaptable and implement radical decision making, taking into consideration the investment and the cost management.

Despite the unfavourable circumstances that arise from the Covid-19 pandemic in the tourism business industry, Amana Ltd could implement modern investments opportunity in opening an online shop, which will maximise the wealth of the owner, and expand for international business.

Reference List

ACCA Global (2021) *Cost-volume-profit analysis*.

Available at: [Cost-volume-profit analysis | F5 Performance Management | ACCA Qualification | Students | ACCA | ACCA Global](#)

(Accessed: 25 April 2021).

Aruomoaghe, J. and Agbo, S. (2013) *Application of Variance Analysis for Performance Evaluation: A Cost/Benefit Approach* Research Journal of Finance and Accounting, Department of Accounting, ISSN 2222-2847 (Online) Vol.4, No.13, 2013, Semantic Scholar.

URL:<https://www.semanticscholar.org/paper/Application-of-Variance-Analysis-for-Performance-A-Aruomoaghe-Agbo/a2b1d0aab568c8550f63fe833d78197e80a750ad>

(Accessed: 27 April 2021).

Atrill, P. and McLaney, E. (2018) *Management Accounting for Decision Makers*. 9th Ed. Pearson Education Limited.

Bagwell, K. (2005) *The Economic Analysis of Advertising*, Columbia University Discussion Papers No. : 0506-01.

Available at: <https://doi.org/10.7916/D8QZ2P6X>

(Accessed: 25 April 2021).

Baines, P., Fill, C., and Page, K. (2011) *Marketing*, 2nd edition, p.625-659, Oxford University Press.

Budde, J. (2009) *Variance analysis and linear contracts in agencies with distorted performance measures*, Management Accounting Research 20 (2009) 166–176, Elsevier.

DOI: <https://doi.org/10.1016/j.mar.2008.12.002>

(Accessed: 22 April 2021).

Durury, C. (2012) *Cost and Management Accounting*, University of Huddersfield, 7th edition, Cengage Learning EMEA.

Dutta, S. K., Lawson, R. A., and Marcinko, D., J. (2013) *Alignment of Performance Measurement to Sustainability Objectives: A Variance-Based Framework*, Journal of Accounting and Public Policy, 2013, Vol 32: (6) pp. 456-474, Elsevier.

Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2268679

(Accessed: 27 April 2021).

Emsley, D. (2000) *Variance analysis and performance: two empirical studies*, Accounting, Organizations and Society Volume 25, Issue 1, January 2000, Pages 1-12, Elsevier.

DOI: [https://doi.org/10.1016/S0361-3682\(99\)00019-7](https://doi.org/10.1016/S0361-3682(99)00019-7)

(Accessed: 26 April 2021).

Emsley, D. (2001) *Redesigning variance analysis for problem solving*, Management Accounting Research, 2001, 12, 21–40, Academic Press.

DOI: <https://doi.org/10.1006/mare.2000.0138>

(Accessed: 22 April 2021).

Fotiadis A., Polyzos S., and Huan, T.C. (2020) *The good, the bad and the ugly on COVID-19 tourism recovery* Annals of Tourism Research Elsevier.

DOI: <https://doi.org/10.1016/j.annals.2020.103117>

(Accessed: 17 April 2021).

Freedman, J. (2019) *Why Management Accounting is Important in Decision Making*. Chron.

Available at:

<https://smallbusiness.chron.com/management-accounting-important-decisionmaking-53947.html>

(Accessed: 15 April 2021).

Googlesir (2020)

Available at: <https://www.googlesir.com/top-8-steps-of-the-decision-making-process/>

(Accessed: 30 April 2021).

Hirst, M. K. and Yetton, P. W. (1999) *The effects of budget goals and task interdependence on the level of and variance in performance*, Accounting, Organizations and Society 24 (1999) 205±216, Elsevier.

DOI: [https://doi.org/10.1016/S0361-3682\(98\)00037-3](https://doi.org/10.1016/S0361-3682(98)00037-3)

(Accessed: 25 February 2021).

Kenton, W. (2021) *Cost-Volume-Profit (CVP) Analysis Definition*, Investopedia.
Available at: [Cost-Volume-Profit \(CVP\) Analysis Definition \(investopedia.com\)](https://www.investopedia.com/terms/c/cost-volume-profit-cvp-analysis-definition/)
(Accessed: 26 April 2021).

Knauer, T., Silgeb, L., and Sommer, F. (2018) *The shareholder value effects of using value-based performance measures: Evidence from acquisitions and divestments*, Management Accounting Research 41 (2018) 43–61, 1044-5005/ © 2018, Elsevier Ltd.
DOI: <https://doi.org/10.1016/j.mar.2018.02.001>
(Accessed: 19 April 2021).

Needle, D. (2010) *Business in Context: An introduction to business and its environment*. p.98-131, 5th Ed. Cengage Learning.

Rastegar, R., Higgins-Desbiolles, F., and Ruhanem, L. (2021) ‘COVID-19 and a justice framework to guide tourism recovery’ *Annals of Tourism Research*, Elsevier.
DOI: <https://doi.org/10.1016/j.annals.2021.103161>
(Accessed: 19 March 2021).

Sadiq, A., Sulaimon, B., Mukhtar, I. S., and Muhammed, M. H. (2017) Cost-Volume-Profit Analysis as a Management Tool for Decision Making In Small Business Enterprise within Bayero University, Kano, IOSR Journal of Business and Management 19(02):40-45.
DOI: [10.9790/487X-1902014045](https://doi.org/10.9790/487X-1902014045)
(Accessed: 19 February 2021).

University of Wales Trinity Saint David (2021)
Available at: <https://moodle.uwtsd.ac.uk/course/view.php?id=3816>
(Accessed: 19 February 2021).

Velasquez, S., Suomala, P. and Järvenpää, M. (2015) "*Cost consciousness: conceptual development from a management accounting perspective*", Qualitative Research in Accounting & Management, Vol. 12 No. 1, pp. 55-86.
DOI: <https://doi.org/10.1108/QRAM-07-2013-0029>
(Accessed: 25 February 2021).

Wilson, J. (2014) *Essentials of Business Research, A Guide to Doing Your Research Project*, 2nd Edition, SAGE Publication.
Available at: <https://doi.org/10.1177/097215091101200211>
(Accessed: 27 April 2021).