

BA Business Management

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Introduction

This report will include the preparation of the actual budget and budgeted budget. This report will cover variance analysis such as material, labour, and variable overhead cost variance and fix overhead cost variance. This report will cover the performance analysis of business for the year 2020. This report will include the recommendations for improving performance. This report will include the advantages and disadvantages of selling products on your site or Amazon.

PART A

Prepare the monthly control report showing the original budget, flexed budget, and variances.

	Original budget		Actual budget		Variances
Particulars	Total	Per unit	Total	Per unit	
Units	100000 units		80000 units		
Sales	2500000	25	1600000	20	900000 unfavourable
Variable cost					
Direct material cost	250000	2.5	280000	3.5	30000 unfavourable
Direct labour cost	400000	4	440000	5.5	40000 unfavourable
Prime cost	650000	6.5	720000	9	
Variable production overhead	150000	1.5	120000	1.5	30000 favourable
Fixed production overhead	-	-	-	-	
Total production cost	800000	8	840000	10.5	40000 unfavourable
Contribution margin	1700000		760000		940000 unfavourable
Other fixed overhead					
Warehouse rental	200000	2	170000	2.125	30000 favourable
Insurance	100000	1	100000	1.25	-
Full-time warehouse supervisor salary	50000	0.5	35000	0.4375	15000 favourable
Total	1150000	11.5	1145000	14.3125	
Profits	1350000		455000		895000 unfavourable

Performance report

Particulars	Actual	Budgeted	Variance
Units	80000	100000	20000 units unfavourable
Sales price	20	25	
Sales	1600000	2500000	900000 unfavourable
Variable cost			
Direct material cost	280000	250000	30000 unfavourable
Direct labour cost	440000	400000	40000 unfavourable
Variable production overhead	120000	150000	30000 favourable
Total variable expense	840000	800000	40000 unfavourable
Contribution margin	760000	1700000	940000 unfavourable
Fixed overhead	305000	350000	45000 favourable
Operating income	455000	1350000	895000 unfavourable

Variance calculations

Sales variance

A sale variance is a difference between the actual sales price of a product or service and the expected price of the product or service that the organisation expects. The organisation uses sales variance to determine which product is contributing more to the total sales revenue of the organisation and helps in making decisions about other products whether to reduce the prices or discontinue.

Sales price variance = actual quantity* (actual price – standard price)

= 80000* (20 -25)

= 400000 unfavourable

Sales usage variance = standard price* (actual quantity – standard quantity)

= 25* (80000 - 100000)

= 500000 unfavourable

Total sales variance = sales price variance + sales usage variance

= 400000 + 500000

= 900000 unfavourable

Material variance

Material variance is the difference between the actual cost incurred by the organisation for direct material and the standard cost or expected cost of raw material used in the production of goods and services in the organisation. Material variance is useful for determining the ability to include the material cost that equals the planned expenses made by the organisation. Following is the material variance of the organisation

Material cost variance = material Price variance + material usage variance

Material price variance = actual quantity* (standard price – actual price)

= 80000* (2.5 – 3.5)

= 80000 unfavourable

Material usage variance = standard price* (standard quantity – actual quantity)

= 2.5* (100000 - 80000)

= 50000 favourable

Material cost variance (total variance) = standard cost – actual cost

= 250000 – 280000

= 30000 unfavourable

Labour variance

A labour variance in the organisation arises due to the actual cost related to the labour activity varies from the expected labour cost of the organisation. This expected labour cost is budgeted labour cost or standard labour cost.

Labour rate variance = actual hours* (standard rate – actual rate)

= 80000* (4 – 5.5)

= 120000 unfavourable

Labour efficiency variance = standard rate* (standard hours – actual hours)

= 4* (100000 - 80000)

= 80000 favourable

Total labour cost variance = standard labour cost – actual labour cost

= 400000 – 440000

= 40000 unfavourable

Variable overhead variance

Variable overhead variance is the difference between the variable production overhead included in the organisation during the production process and the cost given at the activity level during the period. Standard variable overhead is expressed in labour hours or machine hours.

Variable overhead cost variance = standard overhead for actual production – actual overhead incurred

= 150000 – 120000

= 30000 favourable

Fixed overhead variance

Fixed overhead variance is the difference between the actual fixed overhead cost and the budgeted fixed overhead cost of the organisation.

$$\begin{aligned}
 \text{Fixed overhead variance} &= \text{standard overhead for actual production} - \text{actual overhead incurred} \\
 &= 350000 - 305000 \\
 &= 45000 \text{ favourable}
 \end{aligned}$$

Using your control report prepared in (i) above, prepare a report on Amana's performance during the year 2020

The performance report of the organisation shows the performance of the business operating activities of the organisation. For manufacturing concerns, it is important to analyse the performance activity at each level in the organisation during the production process.

Amana's budgeted production level during the current year is 100000 units but in actual there production activity level is 80000 units, so their current year performance is not good as they did not achieve their goals or target during the year 2020. A decrease in the activity level impacts Amana's performance in 2020.

Amana has 900000 adverse sales variance that is not good for Amana. This indicates that in the year 2020, Amana's performance is not good. There are various reasons for the unfavourable sales variance of the Amana, such as Amana reduces their product prices which are less than their expected sales price (van Helden and Alsem, 2016). Another reason for adverse sales variance is the sale of units is less than the estimated units decided by the Amana. There are various other reasons, such as changes in economic conditions, recession, lower economic growth etc.

In 2020, Amana had an adverse Material price variance of 80000. That indicates that the organisation's performance was not good in 2020. The main reason for Amana's adverse material price variance is that they purchase raw material quantity at higher prices compared to standard prices set by the organisation. Inefficient business operations and loss of purchase discount due to the purchase of small quantities of raw material in the business.

In 2020, Amana had a positive Material usage variance of 50000, showing that the organisation's performance is good as the reason behind the positive Material usage variance is the efficient

utilisation of raw material during the production process (Gee, 2019). Greater use of skilled labour and purchase of high-quality raw material than the standard quality of raw material is the cause for favourable material usage variance.

Amana's performance regarding labour costs is not good during the year 2020. As Amana has a 120000 unfavourable Labour rate variance, the labour cost in the organisation during the production process is more expensive than anticipated for their activity level. The unfavourable labour rate variance is that Amana hires more skilled workers that are not required in the organisation.

Labour efficiency variance of Amana is 80000 favourable. This shows that workers' performance during the production process is good and good for the company's performance. Favourable Labour efficiency variance indicates that labour efficiency in the organisation is increasing.

Variable overhead cost variance is 30000 favourable in the year 2020 (Baležentis and De Witte, 2015). This shows that the organisation's performance for incurring variable expense is good as favourable Variable overhead cost variance indicates that the actual cost of indirect material is lower than the budgeted variable overhead of the organisation.

Fixed overhead cost variance is 45000 favourable in the year 2020. This shows that the organisation's performance for incurring fixed expenses is good as favourable fixed overhead cost variance indicates that actual cost is lower than the budgeted fixed overhead of the organisation.

The contribution margin of the organisation is unfavourable, which is not good for the company. The main reason behind this is budgeted contribution margin is more than the actual contribution margin of the organisation. The main cause of this adverse contribution margin is the actual sales price of the product is less than the standard price decided by the organisation. There are fewer units produced and sales in the organisation than at a standard level (Drury, 2018). The other reasons for such a negative contribution margin are higher material costs and high labour costs.

Provide recommendations to Amana's CEO on areas of improvement.

Performance of the Amana in the year 2020 is not well as they have many unfavourable variances that indicate that Amana does not follow the standard that they set for achieving the

goals and objectives of the organisation. There are many areas in which Amana has to improve its business to improve its performance level. Amana has first to check their standard level as the organisation can achieve the standard level set by them because the standard should be realistic so that organisation can achieve that standard level. Amana has to analyse their standard sales price with the actual sales price of the product by changing their standard sales price for standard sales revenue and units so that the sales variance of the organisation changes from unfavourable to favourable variance. By increasing customer demand for the product, they can increase their sales revenue (Wang, et.al, 2015).

The organisation can improve its material price variance by purchasing material of lower quality than the standard quality of the raw material, better negotiation while purchasing raw material from the supplier, and by spending less on purchasing raw material, the organisation can easily improve their material price variance.

Amana should focus on the labour in the organisation as this will improve the organisation's performance. The organisation has to improve the labour rate variance to achieve a favourable contribution margin. Labour variance can be improved by reducing the overtime cost of labour in the organisation. Moving production to the countries where labour is cheap so that labour cost will be less; provide training to the low skilled labour to work efficiently. This will result in a reduction in labour costs and improve the organisation's performance (Holm, 2018).

PART B

In your report, provide an analysis of Mr Amana's decision to go online and advise if they should set up their online shop or sell on Amazon. You should take into consideration all the relevant costs.

When Mr Amana *sells its products on the side*, the following are the cost which will incur

Cost of setting up delivery network = £ 150000

Cost for updating their current website to handle a large volume of sales on-site = £ 50000

Salary of full-time programmer = £ 35000 per annum

There will be expected sales of 100000 units annually.

That means the total cost incurred for selling for their site = £ 235000

Advantages and disadvantages of selling products on the side

Advantages

Control: the organisation has control over the company's website for selling the products in the market. The company has control over the content, design and selling process. Selling the product through the site controls the company from distractions.

Brand voice: website of the company indicates the brand value of the company's products. There is an opportunity for the company to make a unique brand of its products and services by innovation and creation. If an organisation has a unique brand, then customers will prefer it as they attract and buy the company's products.

Increased customer loyalty: if the company sells their products on their website organisation will do marketing to refer its brand to customers. This will improve the chances of repetitive purchases from the customers (Chaffey and Ellis-Chadwick, 2019).

Disadvantages

Minimise product visibility online: online shopping websites such as Amazon etc., attract the customers, and customers visit that website daily to search for the product they want to buy. Amazon and other online shopping websites are the first preference of the customers.

Website cost: this is not easy to maintain and develop the website. An expert is required which maintains the website and make changes to the website according to changes in the product and their specifications. These will be a huge cost to the company as high costs towards the maintenance of the website and fees to the expert are required. So this will be a huge cost to the company to keep updating the website and running the business.

Customer support: this is important to support the customers so that they will continuously purchase from the company. If there is a lack of support regarding payment issues, return goods or delivery of goods, customers will not purchase goods from the company's website (Ranganathan, et.al, 2018).

When Mr Amana ***sells their products with the help of Amazon by directly*** selling, the following costs will be incurred in the business.

Amazon fulfilment fees £ 50000

Annual sales will be 65000 units.

There will be a lack of control over the pricing and return policy

Advantages and disadvantages of selling products on the Amazon

Advantages

More sales: millions of active customers visit Amazon every day for looking products and shop for products. By listing the business products on Amazon, businesses will automatically gain trust and creditability. This is because Amazon promises their customers to provide excellent services to shoppers to buy the product from their website.

Gaining new customers: Amazon helps make a new customer base. Shoppers want to visit the Amazon site rather than go to any specific site to purchase products. This will increase the customer base for business.

International expansion: Amazon is the biggest and most trusted buying and selling platform globally. So, this is very easy for the organisation to sell their products in different markets.

Low marketing cost: Amazon attracts many customers daily who get access to the website of Amazon. So, selling products directly on Amazon needs not any marketing about the product and services of the company (Zhu and Liu, 2018). As Amazon's site works as its search engine, shoppers can easily find the product and services they want.

No stock: Amazon has various warehouses in different countries. So the organisation can ship bulk quantities to Amazon, they will store the products, package them, and send them to the customers. This is beneficial to the organisation that they do not have to stock more inventories with them.

Disadvantages

High competition: various sellers on Amazon are selling their products directly to Amazon, so Amazon prioritises the seller who provides the best price and quality of the product. So there is high competition when an organisation sells their product directly to Amazon.

Selling fees: The organisation does not achieve benefits free of cost. Amazon charges commissions from the retailers for every sale of products through them. There are some fees associated with Amazon, such as registration fees (Kawa and Wałęsiak, 2019). Retailers have to register first on Amazon by paying the prescribed fees. The fee amount will vary based on the category of products sold by Amazon.

Low control: Amazon makes rules for every seller registered with Amazon. The loyalty of Amazon regards customers, not sellers. Amazon has full control over decision making regarding the listing of the organisation's product, removing the content or removing the product from listing, which Amazon finds necessary. Amazon can remove the product of the organisation from its product catalogue.

By analysing both the proposals and advantages and disadvantages of both Mr Amana should sell their product directly to the Amazon as this proposal will ensure less cost to the organisation, and in comparison, to by selling on site this has less cost, and this will also have good sales in comparison to the cost and sales of the product selling on the side (Irwin, et.al, 2019). So Mr Amana should choose to sell their product directly to Amazon.

Conclusion

This report is about the organisation's cost management regarding production process costing. This report discusses the actual budget, budgeted budget and variance analysis. This report covers the performance report of Amana's business. This report covers the performance analysis and the recommendations to improve their performance. This report also includes the decision to sell products through Amazon or own site.

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