



Programme: BA Business Management

Module : Management Accounting

Module code: LCBB5002

Assignment 2

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Introduction

An essential function of management accounting is to assist the company's executives in making informed decisions about the company's operations. Budgets, predictions, and performance reports, among other things, are included in the information included in this area. Management accounting highlights the need of making short-term decisions as a critical component. Instead of helping managers make long-term strategic choices, financial accounting information is designed to assist them make better judgments a day on the base. It is common for MAIs to incorporate data on cost, revenue, profit, and other metrics that are important to the organization's decision-makers. Throughout the first half of this report, you will learn how Amana Ltd. develops a monthly control report that describes the company's performance in the year 2020. Second, it is recommended that Mr. Amana either create an online business or sell on Amazon.com to supplement his income.

Part 1

Reports

A monthly control report is produced, which outlines the company's month-to-month financial performance. It contains information on revenue, expenses, and profits/losses. The report also includes sales data broken down by product or service. The report also includes a comparison of actual outcomes with budgeted results, highlighting any areas where someone who fall short of expectations. Because of this kind of surveillance, managers may identify potential problems or possibilities for improvement in a timely manner. The monthly control report may be used for a variety of different purposes. This functionality may be used for a variety of purposes, one of which is to track progress toward certain goals or targets. As a consequence, management will be able to make better-informed decisions about the company's long-term strategic direction. Furthermore, the report may be used to make predictions about future performance (Davidyuk, 2017).

Mr. Amana's					
Monthly Control Report					
Particular	Original budget (1)	Flexible budget (2)	Actual cost (3)	Activity variance (1-2)	Cost Variance (2-3)
Units	100,000	80,000	80,000		
Variable cost					
Materials (Note 1)	250,000	200,000	280,000	50,000 (F)	(80,000) (U)
Labor (Note 2)	400,000	320,000	440,000	80,000 (F)	(120,000) (U)
Overhead (Note 3)	150,000	120,000	120,000	30,000 (F)	-
	<u>800,000</u>	<u>640,000</u>	<u>840,000</u>	<u>160,000 (F)</u>	<u>(200,000) (U)</u>
Fixed cost					
Warehouse rent	200,000	200,000	170,000	-	30,000 (F)
Insurance	100,000	100,000	100,000	-	-
Supervisor salary	<u>50,000</u>	<u>50,000</u>	<u>35,000</u>	<u>-</u>	<u>15,000 (F)</u>
	<u>350,000</u>	<u>350,000</u>	<u>305,000</u>	<u>-</u>	<u>45,000 (F)</u>
Total overhead cost	<u>1150,000</u>	<u>990,000</u>	<u>1145,000</u>	<u>160,000 (F)</u>	<u>155,000 (U)</u>

When it comes to preparing and publishing the company's monthly control report, the chief financial officer (CFO) is often in responsibility of doing so in cooperation with other members of

senior management. It may be distributed or made accessible on the internet for the benefit of the company's staff members. As a way to keep the report safe, many companies have large databases that can be accessed via their employee intranets. A copy of the document may be stored on a local hard drive for future reference once it has been posted to the company's intranet. Monthly control reports generally contain executive summaries to highlight the most significant findings. Accordingly, management no longer requires reading the whole monthly control report to gain the information they need (Hanif, 2019).

*F = Favorable

*U = Unfavorable

Note 1: Materials cost

Original budget = $(100,000 \times 2.50) = 250,000$.

Flexible budget = $(80,000 \times 2.50) = 200,000$.

Note 2: Labor

Original budget = $(100,000 \times 4) = 400,000$.

Flexible budget = $(80,000 \times 4) = 320,000$.

Note 3: Overhead

Original budget = $(100,000 \times 1.50) = 150,000$.

Flexible budget = $(80,000 \times 1.50) = 120,000$.

In terms of budgeting, flexible budgeting is a close second to fixed budgeting. Flexible budgeting enables for income and expenditures to be adjusted in response to better or worse than predicted short- or long-term performance. Suppose a company has lower-than-anticipated income in a given month, but manages to stay within their budget constraints because they have had a flexible budgeting system in place. The extra income available if the business's sales increases by one month, on the other hand, may be utilized to expand the company. Budgeting flexibility has two key advantages: it helps organizations to be more sensitive to changes in income and expenditures, and it enables them to contrast their performance level to overall anticipated performance, both of which are beneficial. In order to discover areas in and

they are also under- or over-performing, firms may take account of their real products and make improvements to their processes. When it comes to this kind of company planning, including desirable and undesirable changes in income and expenses are taken into consideration throughout time (Li, 2018).

Performance Report

Amana Ltd. has had a difficult year. Sale volumes have decreased as a consequence of the Covid-19 pandemic's restrictions on transportation and travel. Amana Ltd. intends to earn £100,000 in sales, but only makes £80,000 as a result of a variety of expenses. Despite the lower selling price of £20 per unit and the drop in selling prices from £25 to £20, material (£2.50 to £280,000) and labor expenditures (£4) have increased by 20 percent, despite the lower selling price of £20 per unit. The cost of conducting business increases by 10% as a result of this increase. As a consequence, they suffer a total loss of 760 thousand pounds (budget vs actual). Other than an increase in insurance from £100,000 to £170,000, the company's warehouse leasing expenses have remained unchanged from the previous year. Warehouse supervisors' pay have also been slashed by 20 percent, from £50,000 to £35,000 each year, representing a reduction of £20,000. The firm's budget resolution was so much more appropriate than the initial budget because of their larger budget, which allowed them to provide souvenirs at a reduced price while still generating the same number of units. The real-world outcomes of Amana reveal that they underperformed. Although sales have grown, expenses continue to spiral out of control (Macchia, 2019). It is possible to maintain a close check on long-term costs and expenses. Generally speaking, overall profitability has decreased. Amana Ltd. will have to review its revenue and spending structure this year due to the fact that the firm is not earning as much money as it has been in prior years. Instead of focusing just on Amana's industry position, it should pay more attention to the demand for Amana's goods. In order to accomplish its objectives, such as sourcing locally, the company must cut costs while simultaneously exploring for new sources of raw materials and component components. Amana Ltd. may have to cut the cost of all of its items in order to keep customers coming back for more. At the current price of £20 per unit, an estimated £25 per unit was expected to be sold by Amana Limited. According to the budget and actual results, this circumstance results in a loss of around £760,000. Increasing material and labor prices, together with rising overhead expenditures, were the major contributors to this loss. Rather of concentrating on a certain market, such as tourism, Amana Ltd. should concentrate on the demand for its products instead. To compete, they must cut their unit pricing and explore for other sources of components and resources to replace the ones they are now using (i.e., local sourcing). The firm should consider price reductions as one possibility, but it should also consider expanding into other sectors in order to provide a greater diversity of revenue sources (Malina, 2018). If Amana Ltd. makes the necessary changes, the company may be able to recover from the Covid-19 outbreak and restore its foothold in the tourist industry.

Providing recommendations

Amana Ltd. is going through a terrible time right now, and the company's CEO needs some concrete initiatives to help her firm get back on its feet as soon as possible. The ability to increase revenue by selling more units at a higher price while simultaneously reducing variable expenditures is critical in this case. It is conceivable to generate an additional £40,000 in revenue by simply increasing the selling price of each unit from £25 to £30, while keeping the variable costs the same. As a consequence, if this option is followed, Amana may have a reduced supply of items to sell. This is not a wise decision to make. For example, if you raise the selling price from \$25 to \$30 per unit while simultaneously decreasing variable expenditures from \$20 to \$12 per unit, you may anticipate a gain in revenue of \$80,000. This decision may result in lower losses as well as a bigger contribution to Amana's fixed overheads. Both of these outcomes are plausible. This is an excellent option to consider (Modell, 2017). Through the use of promotional price of (£25-£5) for the length of the promotional period, sales volume may be raised, and new customers may even be attracted. This is an excellent marketing strategy. The downside of this option is that the company may be left with a large number of unsold souvenir inventory at the end of the promotional period, which may deplete the company's working capital. This method is not recommended in view of the above reasons. Due to the closure, Amana will see a boost in revenue of £100,000 as a result of the sale of souvenirs online to customers who were unable to visit their stores in person during the shutdown. As a consequence, this is the most appropriate option. It is feasible to reduce variable costs to the bare minimum by cutting material costs from £2.5 per unit to £2 per unit while keeping all other variables constant (selling price and labour costs remain unchanged). In this case, an increase in revenue of (£20,000) will arise from an increase in contribution margin per unit of (£0.5). The downside is that this might result in poor items, which would have a detrimental influence on the satisfaction of consumers. This is not a wise decision to make. We can save £120,000 per year in variable expenditures by lowering the number of full-time warehouse staff from four to three while maintaining all other elements constant. By selecting this option, Amana will be able to save money while also contributing more to its fixed expenses. Increased productivity will result in a reduction in invariable costs of £30,000 per year if overhead expenditures are lowered from £1.5 per unit to £1 per unit. It is likely that this solution will not be attainable due to the fact that certain overhead expenses are required to be paid by the firm in order for it to function properly (e.g., insurance). This is not a wise decision at this time (Nishimura, 2019). The chief executive officer of Amana has made it clear that increasing revenue while decreasing variable

expenditures is a top focus (CEO). Using the options outlined above, it is possible to attain these objectives while also improving the financial state and overall health of the company.

Part 2

Report to Mr. Amana

Mr. Amana made a wise move, in my opinion, when he decided to shift 50 percent of his company's sales from physical to online platforms. Brighton, Birmingham, and Manchester were only able to serve a small percentage of the local population since his company's locations were so far away. The existence of these sites may enable Amana Souvenirs to benefit from a larger clientele base, but the chances of attracting new customers are few, and the costs connected with doing so are too expensive. Amana Souvenirs has the opportunity to significantly expand its customer base and market share by implementing a digital strategy that targets the United Kingdom, Europe, and the United States. It may also aim to reorganize and modernize its remaining physical locations in order to continue servicing local consumers and brand lovers in the future. Amana must choose between selling his wares on Amazon and starting his own internet company. Neither option is appealing to him. Each possibility was evaluated in terms of its pros and drawbacks prior to a final decision being made by the company (Scott, 2019).

In terms of setting up their own online store: For Amana to keep the system working, a start-up cost of £10,000 as well as a monthly operational cost of £100 would be necessary, according to the company. It was also being considered by the company's owners to hire a full-time programmer with a salary of £35,000 per year, who would be able to work from their own homes (White, 2019). It would be necessary for this employee to have on-going supervision and guidance, which would add to the organization's overall burden. The expenses connected with the distribution network are also taken into account as additional factors. According to predictions, customers in the United Kingdom, Europe, and the United States would need a delivery system worth \$150,000 or more to be served. Taking everything into consideration, Amana's online shop will cost them a total of £295,000, which, when all of the expenses are taken into account, might result in a sales increase of about 5 percent to 10 percent.

Alternatively, if they were to sell on Amazon: Amazon fulfillment expenses of £50,000 will be incurred by Amana, which will be included in the price of the product. Moreover, as a result of the severe rivalry among retailers, it is projected that Amana will only sell 65,000 units via Amazon. The market's demand, on the other hand, has the potential to drive this figure even higher (Tănase, 2021). On the basis of the aforementioned expenditures, Amana would be necessary to invest £50,000 in order to sell its goods on Amazon in the first year. Choosing to sell via this e-

commerce behemoth will incur a total cost of £100,000 in marketing and advertising for the firm in question. If Amana chooses to sell its products on Amazon, it will be able to lower its start-up expenses significantly. They would have gotten far less revenue and profits if they had built their own web business from the bottom up, on the other hand.. Instead of selling its products via a third-party website, the business may want to consider opening its own online shop, which might result in increased sales and profits for the company as a whole, according to the report. As a result, they will have complete control over the things they sell, the pricing they charge, and the terms under which they accept replacements from customers. Finally, before determining where to sell his belongings, Mr. Amana should consider all of the factors that might influence his decision. The future of his firm will be determined by his decision on whether or not to sell on Amazon or to open his own online store.

Mr. Amana should begin selling on Amazon for at least the next two years, based on the grounds presented above, as a result of his current financial circumstances, it is suggested. Mr. Amana will be able to acquire real-time feedback on the amount of product acceptability in the selected countries with the use of this seller space, and he will be able to create marketing efforts that will improve consumer familiarity and loyalty over the long term. It is likely that Mr. Amana may want to explore building an Amana Souvenirs-specific online shop after the product's brand recognition in the targeted market has been developed for the first 1-2 years in the market, if the product has been in the market for more than two years (Weetman, 2019).

Conclusion

According to the findings of this research, managerial accounting is a critical component of any organization. Businesses may use this software to maintain tabs on company's financial health and make better-informed choices that ultimately benefit their bottom line. Many different methods and procedures are used by accountants and auditors, which they then utilize to provide suggestions for small entrepreneurs.

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