

Management Accounting

LCBB5002

Assessment 2

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Introduction

Management accounting, also defined as managerial accounting, is a branch of accounting that focuses on identifying, evaluating, exploring, and applying accounting information that will assist management in making effective managerial and operational decisions. Management accounting concentrates on providing reports to internal stakeholders such as managers or employees to support effective decision-making (Drury, 2018). Budgets, projections, and performance reports are examples of the financial information provided by management accounting. The importance placed on short-term decision-making is among the most significant characteristics of managerial accounting. Management Accounting Information or MAI is designed to help management teams make better regular decisions. This report consists of two sections. The first section demonstrates the preparation of a monthly control report that identifies Amana's Ltd.'s performance in 2020. In the second section, recommendations for Amana Ltd will be provided to help the company decide whether it should start selling the product or open its online store if it wants to market its 50% products online.

PART A

Preparing Monthly Control Report to Show Original Budget and Variances

Monthly Control Report: This type of report is prepared to summarize a company's performance for the month. It involves revenue, expense, profit or loss statistics, and a sales breakdown by product line. The document also compares actual outcomes to budgeted amounts, identifying sections where actual outcomes deviated from expectations (Garrison, Noreen and Brewer, 2018). This enables organizations to understand potential issues or areas for improvement. The monthly control report is helpful in two aspects. One element is concerned about personal performance, while the other is concerned about financial performance. The first type of analysis is organized and reported to monitor the effectiveness of managers and chief executives of numerous functional areas to what it should be under the situations. The causes of performance variances are also discovered. The second type of analysis demonstrates how the responsibility centre has performed as a commercial activity (Warren, Reeve and Duchac, 2014). This type of analysis is performed regularly. Knowledge of cost and managerial accounting is required for this type of analysis. For example, it can monitor performance toward particular objectives and goals. It could also assist in identifying trends and patterns and help managers make better decisions and strategic plans.

Furthermore, the report can also be used to project future success. The chief financial officer is in charge of the monthly control report, reviewed with other top management representatives before being distributed across the organization. Employees can then access it privately from every computer with an internet connection and download a copy (Steve and Robbin, 2018). It is usually

determined by an executive summary, which illustrates the main facts from the original report. It makes it simpler and faster for managers to obtain the information they require without thoroughly reading every detail presented in the document.

Flexible Budget: A "flex" budget is one that can be adjusted to reflect changes in revenue. Rather than using set figures for specific costs, the flex budget will employ percentages of revenue. This method provides a more accurate comparison between budgeted and actual outcomes. This makes it possible to make an endless number of modifications to the projected costs based on the level of revenue. A flexible budget is more helpful than a fixed budget since it adjusts to fluctuations in revenue. However, this technique does not take into account changes in other expenditures that are not affected by revenue fluctuations. Since bigger income fluctuations need accounting for step costs, a more sophisticated model must also account for changes to several other expenses. A corporation will have a way to compare actual performance to budgeted performance at various levels of activity if these adjustments are made to the budget (James, 2022).

Flexible budgeting allows more flexibility in income and expenses due to positive or negative results than expected output. Flexible budgeting enables enterprises to be more adaptable to revenue and expenses variances, making it easier to compare actual results to planned results. Firms can identify gaps in which they are underperforming or over-performing and take corrective actions. The main advantage of a flexible budget is that it represents the company's financial position more accurately. On the other hand, fixed budgeting cannot account for unexpected costs or fluctuating revenue. This will aid managers in maintaining a record of in which area they can save money each month (Graybeal, Franklin and Dixon Cooper, 2018).

Additionally, it helps to plan a budget based on one's preferences. A flexible budget is significant if users want to save money or achieve a greater financial purpose. Overall, flexible budgeting seems to be a more reliable method of business budgeting because it accounts for both favourable and unfavourable variations in revenue and costs.

Monthly Control Report

Original Budget

Particulars	Actual (£)	Original (£)	Variance	Positive/Negative Variance
Units	80,000	80,000		
Sales			400,000	Negative Variance
Actual: (80,000 x 20)	16,00,000			
Original: (80,000 x 25)		20,00,000		
Less: Costs				
Variable Costs:				
Materials	280,000	200,000	80,000	Negative Variance
Labour	440,000	320,000	120,000	Negative Variance
Overhead	120,000	120,000		Nil
Contribution (Sales – Variable Costs)	760,000	1,360,000	600,000	Negative Variance
Fixed Overheads:				
Warehouse Rental	170,000	200,000	300,000	Positive Variance
Insurance	100,000	100,000		Nil
Fulltime Warehouse Supervisor Salary	35,000	50,000	15,000	Positive Variance
Profit	455,000	1,010,000	555,000	Negative Variance

Table 1: Monthly Control report

Source: (Self-Made)

Fixed Budget
Original Budget

Particulars	Actual (£)	Original (£)	Variance	Positive / Negative Variance
Units	80,000	100,000	20,000	Negative Variance
Sales			500,000	Negative Variance
Actual: (80,000 x 25)	2,000,000			
Original: (100,000 x 25)		2,500,000		
Less: Costs				
Variable Costs:				
Materials	200,000	250,000	50,000	Positive Variance
Labour	320,000	400,000	80,000	Positive Variance
Overhead	120,000	150,000	30,000	Positive Variance
Contribution (Sales – Variable Costs)	1,360,000	1,700,000	340,000	Negative Variance
Fixed Overheads:				
Warehouse Rental	200,000	200,000	0	Nil
Insurance	100,000	100,000	0	Nil
Fulltime Warehouse Supervisor Salary	50,000	50,000	0	Nil
Profit	1,010,000	1,350,000	340,000	Negative Variance

Table 2: original Budget report
Source: (Self-Made)

Preparing a Report on Amana's Performance through Using the Monthly Control Report:

Performance Report

The Covid-19 outbreak has resulted in limitations on travel and tourism, resulting in a drop in Amana Ltd revenues. The company expected to make £100,000 in earnings from selling Souvenirs. The company's revenue, however, falls well short at £80,000. Even with a 20% decrease in sales prices from £25 to £20 for each unit, Amana Ltd still faces significant unit price hikes caused by an upsurge in materials and labour costs and a 10% rise in overhead expenses. This results in a total loss of £760,000 (Budgeted vs Actual). The firm's warehouse rental is still the same, leaving insurance as it is the only fixed overhead cost that has risen from £100,000 to £170,000. The full-time stockroom supervisor's salary has also been reduced from £50,000 to £35,000 annually. As a consequence, the firm's profitability has fallen short.

Amana Ltd. may not be as financially viable as it was in previous years, which will cause them to consider its income and expense structure in the future. Amana Ltd. must emphasize product demand rather than industry positioning, such as the tourist industry (Peter, 2017). The company can minimize manufacturing costs and look for alternative sources of required raw ingredients and materials. If Amana Ltd. wants customers to keep purchasing their souvenirs, the company may also need to reduce their prices for consumers. Furthermore, they can consider diversifying into various markets to reduce risks and generate foreign earnings. Even though the Covid-19 outbreak seems to harm the industry and, in particular, Amana Ltd., there will still be possibilities for the firm to bounce back if the required changes have been made.

Providing Recommendations for Amana Ltd.'s CEO to Improve their Performance:

Amana Ltd. has been facing a challenging period, and the CEO of the company requires some concrete measures to help the business get back on its feet. In this situation, enhancing revenue from selling more items at a slightly higher price while also lowering expenses is essential (Hill, Kavin and Young, 2015). Some suggestions for Amana Ltd. to increase revenue have been provided below.

- Enhancing the selling price of every unit of products from £25 to £30 without influencing the operating costs will result in an increased contribution margin of £2 for each unit. This suggestion, however, may not be ideal because it may affect the sales volume.
- Escalating the sales price from £25 to £30 while lowering expenses from £20 to £12 for each unit will result in a significant rise in a contribution margin of £8 for each unit. This will help the company minimize the losses while contributing more to Amana's fixed expenses.

- Selling souvenirs online to consumers who cannot visit physical locations will help Amana Ltd raise profitability while lessening fixed overhead costs.

Apart from that, its CEO needs to reduce its costs to increase profitability and grow some ways through which Amana can reduce its costs have been provided.

- Material expenses can be minimized from £2.5 for each unit to £2 per unit when all the other factors stay constant. It may result in an enhanced contribution margin of £0.5 per unit, resulting in enormous sales growth. However, the organization should be aware of it because this may result in low-quality products, negatively impacting customer satisfaction.
- Lowering the number of full-time warehouse employees from four to three while keeping all other factors constant will result in a £120,000 drop in variable costs annually. This alternative will minimize losses and overhead expenses.
- Minimizing overhead expenses from £1.50 each unit to £1 each unit will result in a £30,000 drop-in variable costs annually. This option, however, may not be feasible because some of the overhead expenses are required for the business to function appropriately.

PART B

Analysis of Amana's Decision to go Online

Amana Ltd's decision to take 50 percent of its sales to an online platform is a good choice. The company's divisions in Brighton, Birmingham city center, and Manchester city center can be capable of serving a narrow region of the population. At the same time, the inclusion of the company in the online market may increase Amana Souvenirs' customer base. When selling products offline, the possibilities to reach many customers are limited, and the expenses caused by the presence of physical stores are high (Wilton, 2021). Amana's Souvenirs has the potential to rapidly expand its customer base and market platform by transferring 50 percent of its expected sales into an online system that targets the UK, the USA and Europe. Simultaneously, the company can plan to reposition its remaining physical stores better to serve its existing customers and loyalists. Mr. Amana, the company owner, will have to choose between selling on Amazon and opening his online marketplace. Before deciding which alternative option to take, Amana Ltd must have considered the relevant costs factors of each choice in order to make the right decision.

If Amana Ltd Develops Its Online Marketplace

If Amana Ltd decides to launch its online store, it must consider this. A preliminary £10,000 will be needed for start-up expenditures, with an additional £100 per month necessary to keep it functioning. In addition, the firm's managers have been planning to hire a full-time software engineer at a salary of £35,000 a year. It will only stress the company since the employee will require constant guidance and supervision further. Moreover, the cost of product distribution and

delivery has to be considered. It is anticipated that £150,000 will be required to set up a delivery platform for customers in the UK, Europe, and the United States. With these expenses taken into account, it can be said that Amana Ltd requires approximately £295,000 in order to use its online marketplace – which might feasibly increase sales.

If Amana Ltd Sales Directly on Amazon

If the company wants to take the alternative option of selling products directly on Amazon, it must consider the following factors. Amana should remember that the company will have to pay £50,000 as Amazon fulfilment payments. Furthermore, due to intense competition among Amazon sellers, Amana is expected only to accomplish assured sales of 65,000 units on the channel. This figure, however, is highly unpredictable because it is heavily dependent on market consumption. In terms of expenses, Amana Ltd would also have to invest £50,000 in an attempt to sell their products or offerings on Amazon. If the organization chooses to sell by such a leading e-commerce platform, the overall cost will be £100,000.

Recommended Decision for Amana Ltd:

It should be said that if Amana Ltd decides to sell on Amazon, they will incur lower start-up costs. However, the firm's earnings and revenues are anticipated to be lower than if it decided to establish its own online business. In comparison, if the firm decides to start its own online business, the company may see increased sales and higher profit margins (Ward, 2016). This is because they will have total control over what they offer, how much they charge for their offerings, return policies and customer service. Therefore, Amana must carefully evaluate all aspects before deciding where and how to sell the products. By assessing the benefits and drawbacks of both alternatives, he could make an appropriate decision that is ideal for the business.

Considering all of the aspects mentioned above, it would be preferable for Amana Ltd to decide to sell through Amazon initially, for at least the next 2-3 years. Although it is likely to experience a high level of competition in this e-commerce platform, it will give the company with honest reviews and feedback about the customer satisfaction level of the goods in the chosen markets and therefore, Amana Ltd will be able to develop marketing strategies appropriately to enhance consumer awareness of the product in the long term (Kairon and Richard, 2019). Then, Mr. Amana could switch to a specialized online marketplace for Amana Souvenirs after raising the item's awareness in the customer and target market during the initial 2/3 years.

Conclusion

Management accounting is an essential part of every business because it assists in tracking financial performance and making better decisions. Managerial accounting collects and analyses financial data using different tools and techniques that can be used to provide insights and guidance to business managers or executives. This report is based on a tourism company named Amana Ltd. In the first section of this report, a monthly control report has been prepared for Amana Ltd that measured the company's performance in 2020. In the second part, Mr. Amana has provided some recommendations on whether he should open his online store or sell on Amazon.

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