

Management Accounting

Assessment-2

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Introduction

The report will be disclosing the variance of the revenue and expenditure of the company named Amana Ltd. The company provides tourist souvenir which has faced a huge loss of demand because of the pandemic. Now the company has planned to hire a manager to analyse the cost and suggest for the improvements. Also, the company has planned to enter digital platform. It has two choices. Those will be analysed to select the best option for the company in the long run.

Part A

Preparation of the monthly control report showing original budget, flexed budget, and variances

To compare performance of a business, budget is widely used. It shows the development or the deteriorations the business has actually made comparing the expected values. Budgets do have a number of purposes (Shah, 2019). Not only making comparison, but also planning ahead is the main goal. Flexible budget is popular for such financial planning. It gives the businesses scope to change the volume and other values to make it more comparable (Pearce, Atkinson and Mourato, 2016). As it can change the volume of sales or unit of sales, the budget can be revised using the actual values and can be compared with the budget made before (Burns and Scapens, 2020). It shows the variations between these two and helps to make better plans. Also, flexible budget helps to assess the performance of different department of Amana Ltd. thus, they would know if the purchasing or labour department is performing well or not. The variations are mentioned in the flexible budget named as activity variances (Burns and Vaivio, 2021). For Amana Ltd, the actual sales will be used for the flexible budget. As the pandemic has affected the sales level, the actual budget and flexible budget will show much variations. When the actual number of activities is included into the preparation of a budget, flexible budgets are able to more accurately represent the planned budget's intended purpose and real image (Mishan and Quah, 2020).

particulars	Flexible budget	Original budget	variance
unit	80000	100000	20000
sales price	25	25	
sales	2000000	2500000	500000
variable expenses:			
materials	200000	250000	50000
labour	320000	400000	80000
overhead	120000	150000	30000
fixed overhead			
rental	200000	200000	0
insurance	100000	100000	0
salary	50000	50000	0
total costs	990000	1150000	160000
income	1010000	1350000	340000

Source: Author

When the first budget was prepared, the expected sale was 100,000 units. But for the pandemic, the sales decreased to 80,000 units. The unit sold has decreased in the flexible budget which is not favorable for the company. It has led the company to decreased revenue. But the costs of the flexible budget are lower than the other budget. It is the material costs, labour and overhead costs. these are incurred only when the production is made. As the sales were low, the productions were also low. It would have saved a lot of costs of the company. It is a favorable condition for the business as lower costs brings higher income. As the units sold has decreased, it has direct impact on the variable costs like materials and labour. Lower level of production encourages lower level of revenue. £340,000 is the decreased level of income for the decreased units sold and others. Though the costs have decreased because of the decreased amount of units sold, the fixed is the same. It cannot be lessened for the decreased sales. Though the price was the same and the revenue has decreased proportionate to the variable costing, the fixed cost was employed at the same absolute value. That is why the company has seen such a huge loss of income at the end of the period.

Preparation of a report on Amana's performance during the year 2020 using the control report

There are times when supply is greater than demand, which may lead to a decrease in sale value, and there are other times when demand is more than availability, which can lead to an increase in sale value (Drèze and Stern, 2017). Additionally, up until the point at which real sales take place, the expenses connected with both manufacturing and selling remain unknown. If there are variations in the actual reports and the budgets ones, then the performance of the company must be assessed. The performance report will help the company to assess all these factors from a quick view of the company reports as well as the variations (Cooper and Slagmulder, 2018). The revenue and the expenses shows the required variations which are important for the managers to make proper decision.

particulars	Flexible budget	Original budget	variance	actual result	revenue and spending varinaces
unit	80000	100000	20000	80000	
sales price	25	25		20	5
sales	2000000	2500000	500000	1600000	-400000
variable expenses:					
materials	200000	250000	50000	280000	80000
labour	320000	400000	80000	440000	120000
overhead	120000	150000	30000	120000	0
fixed overhead					
rental	200000	200000	0	170000	-30000
insurance	100000	100000	0	100000	0
salary	50000	50000	0	35000	-15000
total costs	990000	1150000	160000	1145000	155000
income	1010000	1350000	340000	455000	-555000

The above table shows the differences between the actual results as well as the flexible budgets. This is named revenue and spending variation (Hansen and Mowen, 2014). The change in level of units did not keep up with the change in the variable costs. The income ought to have been two million dollars for the actual sales of 80 thousand units, but it was only a little more than one and a half million dollars. The rationale for this was because the real sale value was £5 less than projected, despite the fact that it had been predicted that the sale value per unit will be £25. The lower asking price led to a £400,000 drop in total income as a direct consequence. The differential in income of £400,000 is not in an advantageous position. If the next section is observed, the costs of the company has increased significantly compared to the flexible budget. This is an unfavorable condition. The material cost is 40% higher than the flexible budget. In case of labour costs, the cost is 37.5% higher than the budgeted value. It shows that the pandemic has affected the variable costs too. It has led to higher variable costs. the overhead costs were the same. It made the total variable cost to rise £200,000 which is not a favorable position for the company. But, the fixed costs of the company have decreased. It is a good sign as the unit sale has decreased, the decrease in the fixed costs will bring a proportionate decrease in the income. The fixed cost has decrease by £45,000 which is a favorable sign for the company. The actual amount of money made from operations was £455,000, which was £555,000 lower than the budgeted amount. To obtain a more favorable outcome, the disparity between revenues and expenditures has to be reduced to the greatest extent possible. The difference between the anticipated and actual number of units sold was the source of the activity variation. On the other hand, the difference in income and

expenditure was the outcome of a shift in the units' sale value as well as the expenses and the operating expenses. The overall variation in a positive direction was £45,000, while the total volatility in a negative direction was £200,000.

Recommendations to Amana's CEO on areas of improvement.

There are a number of fields and areas which must be considered to make improvements in the performance of the company. These are-

- The major reason of the decreased sales is the decrease in the number of the tourists in the places the company sales its souvenir. As the number of tourist will increase over time, the company must focus on the marketing projects (Weil and Maher, 2015). The company can also create advertising for the tourist spots it has targeted. It will be helpful for the nation as well as the company.
- The cost of material and labour has increased. It is also the impact of the pandemic. The company must research well to find the cheap materials and labour. They can use modern technology to save the labour costs. also, they can train the employees which will help them to maximise the productivity (Hansen, Mowen and Heitger, 2021).
- For the high fixed costs, the company must focus on the increasing sales. The more units sold, the lower the per unit fixed cost. The company can produce different offers and get license to sell their products in more areas. It will increase the sales more decreasing the overall impact of the fixed costs.
- As the pandemic hit, most of the companies were digitised forcefully. This has made the business world more dynamic in that time. Amana Ltd need to digitised the selling process as well as the marketing. It will be saving a lot of costs as well as the more people will be able to reach the company products (Zerbe and Bellas, 2016). Also, it will leave the company with higher income. Thus, the company can produce products from more ranges.
- The management have to take into account the manufacturer's level of quality. Because Amana is in the tourism industry, there is an opportunity to get a strategic advantage by offering gifts that are distinct from one another. The sale value has to be aggressive enough in the market to justify both the demand and the availability. Additionally, the corporation needs to broaden its network infrastructure in order to improve the effectiveness of product distribution.

- Another suggestion will be use flexible budgets as well as other different budget for different functions. Budgeting for each functions will help the company to track the changes in the variables that affect the functions and its costs. It will help the company to follow the value presented in the budget. Also, it will be helpful for the company to maintain the budget in proper way as the small budgets will be giving the managers more ideas about the market and the functions.

Part B

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.

Considering the high demand, the company has been planning to close branches in Brighton, Birmingham city Centre and Manchester city. Also, they want to make half of their operation online. This decision will be supporting the changes in the business dynamics in these days. Most of the businesses are digitised. As the epidemic began to spread, the majority of businesses were digitalized without their consent. Because of this, the corporate environment in that time period has become more dynamic (Asiedu and Gu, 2018). Both the marketing and the sales process at Amana Ltd. need to be brought into the digital age. It will result in significant cost savings, and moreover, the number of customers who may access the company's goods will increase. Additionally, it will result in a bigger revenue for the organisation. As a result, the organisation is able to create goods from a wider variety of categories. But it will create a huge fixed costs for the company. The company must consider the costs of setting online business as well as with amazon to make proper decision.

Particulars	Amount (£)
Cost of setting delivery network	150,000
Cost of upgrading the current website	50,000
Total capital expenditure	200,000
Per unit capital expenditure	2
Salary of an IT programmer	35,000
Total revenue expenditure	35,000
Per unit revenue expenditure	0.35
Total expenditure	235,000
Total expenditure per unit	2.35

If Amana Ltd tries to set up its own online shop, the onetime fixed cost will be around £200,000. And the total will be around £230,000. The fixed cost mentioned will be spent only at the beginning of the set up. There will be no more such costs in the future. But the programmer will have to be paid every month or year, the website need maintenance which will be done by the programmer. Thus, the whole cost structure will be reduced to this salary expense. Salary will be around £35,000 which is a fixed cost for the year. Thus, higher sales of the products will reduce the per unit cost of the product. Thus the company will be able to minimise the costs of the products. But they must invest in marketing and the advertisements to increase the sales of the company. The per unit cost will be only £2.35 if the company can sell 100,000 products. The fixed cost will be only £0.35. If the company want to sell the products through Amazon, then the cost will be-

Particulars	Amount in £
Fee	50,000
Sale	65000 units
Per unit cost	0.77

The cost of selling products on Amazon is significantly lower than the other option. There will be no fixed expenditure. The per unit cost will be only £0.77 which is very low compared to £2.35. the absolute amount is around £185,000 which is huge for a company like Amana Ltd as it has gone through the impact of the pandemic directly. Amazon will provide a number of benefits to the sellers like marking benefits, motivation through reviews and so on. also, the website maintenance cost will be borne by amazon itself. But the issue will be competition. To get the attention of the customers, the company will have to deal with a number of huge players. If the players have good reviews and products, the customer will hardly choose Amana over those. Also, the producing strategy needs to be aggressive. So, the company will eventually make low margin. But if the company succeeded in making the business popular on the platform then the business will be making huge profit overall. Also, it must be kept in mind that the guaranteed sales in Amazon is 65,000 while the option of owning their own websites will guarantee sales of 100,000. Also, if they try, they can attract many customers as well as other businesses to advertise complementary products on the websites. Their own website will provide them a lot of opportunities. The company can launch many other products easily without any cost. the company can also design their websites and marketing strategy according to their own plans. This will be impossible for the case of Amazon (Rindfleisch and Heide, 2017). The company will design the website in a way that the website will only present the company products and reviews on it. Thus

the people will get clearer idea about the company. Along with that, owning a website provides the business good image as well as helps to provide good services. The delivery will be prompt and the people will be happier. Amazon also has a lot of opportunities but aggressive competition will grab all the advantages for Amana Ltd. thus the company will be making less than expected. Also, the marketing cost for Amazon will be much higher compared to the marketing cost for their own website. The company will be also making revenue from the other business. They can help other businesses launch different products through the website. Again the fixed cost is only £0.35 which will decrease more if the company is successful in making more sales. This will also give the company competitive advantage (Hansen, Mowen and Heitger, 2021). After the company has made success in their own website, they can enter Amazon which will be advantageous for the business as by then, it would have made success in their own website. The popularity will be helpful in capitalising the advantages of the platform.

Conclusion

The report has discussed the use of flexible budget in the context of the company Amana Ltd. It illustrates the progress that the company has really accomplished, as well as any declines that have occurred, by comparing the actual numbers to the predicted ones. The budget has shown that the company has made £555,000 lower than the expected budget. It made it easier for the company to make decision about the lessening sales. Training for the employees, new source of materials, marketing, online business etcetera are the suggestions here. The company should set up their own website for it which will be more profitable in the long run.

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