

University of Wales Trinity Saint David

Management Accounting - LCBB5002

Assignment 2 Report

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Introduction

Generally, Management Accounting as a concept is important for the examination of an organisation's general performance besides systematic reporting. This concept is also helpful in providing support in decision-making in the organisation (Ostapiuk *et al.*, 2017). On the other hand, strategic management is important for the recognition of the basic approach in planning, examining and controlling the financial performance of the business to ensure growth in the organisation efficiently and systematically. According to the consistent change in the global market environment, business administrators should analyse and change the present strategies in performance in order to maintain effective sustainable development.

According to current market demand, the financial performance along with the business budget is present in the report and this evaluates the business budgeting as a whole. Besides this, the making and buying decisions are also analysed to understand the useful approach to business in the right way.

Discussion

Part A: Business Financial Budget of Amana Ltd

Based on the basic approach of costing, a business budget is applicable as a tool for evaluation that is used by business members and leaders because this is effective in understanding the aptitude of business in a particular period of time (generally current). This approach is equally applicable for providing the business with an opportunity to plan strategies effectively and to the ability of the organisation (Vlasic *et al.*, 2019.). Generally, the use of a business budget is often seen as an anticipated or expected financial statement. This is done with the purpose of performing a basic evaluation of the opportunities and shortcomings of business in financial factors positively. This is also helpful in providing a good amount of guidance and channel to the administration so that it can understand the basic capability of the business in a particular manner with particular notice to any strategic development in the current business development and growth.

The current details reveal that Amana Ltd is a tourist business owned by a family in the UK. The organisation was operating in famous tourist places such as London Bridge, Buckingham Palace, Brighton, Birmingham City Centre, Westminster Bridge and Manchester City Centre. The organisation has been following some approaches for 40 years that have helped the organisation to provide a sustainable financial state in comparison to other organisations and good financial support that has marked the approach in the development of the business in an

obvious manner. But the pandemic of COVID-19 has given rise to a negative approach in the financial performance of the business as the total revenue performance has reduced in a negative way impacting the profitability of the organisation. The main cause of the condition is the overall lockdown that has resulted in less customer engagement. Lack of customer service has decreased the profits of the business (Perdikaki *et al.*, 2017). The business leaders are looking forward to taking strategies to deal with the current situation that is cost-cutting or cost reduction for raising operational competency. An increase in revenue strategy is also the focus of the organisation so that it can see the face of proper growth further. The increase in revenue will assure an increase in profitability. To increase the amount of performance, the organisation is relying on this approach and the management is using variance analysis in this process so that the operational competency of the organisation can be increased (Sridhar *et al.*, 2017).

Section 1: Business budget computation and variance analysis

The standard costing approach is taken by the organisation as costing principles in the same performance to perform variance analysis to get two separate outcomes. For further explanation, standard costing in business is marked as an approach to differentiate between the actual performance and the business budget performance in the present market situation (Ivanov and Webster, 2017). This approach can be signified to show that the management is most likely to analyse the difference between the two separate results and compare them to display the opportunistic and processes growth in the business of the organisation that highlights the maintenance of a sustainable approach. This difference in results should be rightly used by the organisation to mark the areas for development.

The business variance in the performance of the business has brought about a convenient position. This proves that the economy of the business is at a satisfactory level comparatively. But it is to be remembered that if the situation is adverse, then the business will require some changes in the strategies for the purpose of sustenance (Perdikaki *et al.*, 2017). Keeping this in mind, it is found that both standard costing and budget have significance for the analysis estimation of the financial competence and current operational level of the business to fix the capability of competence in future.

Budgeting approach computation of the business for the analysis of company performance

Particulars	Units	per unit	Amount	Amount
Sales	100000	25		2500000
Less: Variable expenditure				
Direct material	100000	2.5	250000	
Direct Labour	100000	4	400000	
Overhead	100000	1.5	150000	
Total cost		8		800000
Contribution	100000	17		1700000
Less: Fixed expenditure				
Warehouse rental			200000	
Insurances			100000	
Fultime warehouse supervisor salary			50000	
Total Fixed cost				350000
Net profit				1350000

Actual performance computation of the business for the analysis of company performance

Particulars	Units	per unit	Amount	Amount
Sales	80000	20		1600000
Less: Variable expenditure				
Direct material	80000	3.50	280000	
Direct Labour	80000	5.50	440000	
Overhead	80000	1.50	120000	
Total cost		10.50		840000
Contribution	80000	9.50		760000
Less: Fixed expenditure				
Warehouse rental			170000	
Insurances			100000	
Fultime warehouse supervisor salary			35000	
Total Fixed cost				305000
Net profit				455000

Analysis - The amount of differentiation in the computation between the actual performance and budget performance of the business shows that the actual performance of the business is higher in comparison to the anticipated result. For a clearer picture of the differentiation in the computation of business, the budget and actual performance have been taken for variance analysis for the understanding of the opportunities and shortcomings in the business.

Business variance analysis computation of company performances

According to the provided current details, an examination of the business variances between budget performance and actual performance is given along with aggregate and unit value.

	Cost per unit						
Items	Budget	Actual	Budgeted	Fixed	Actual	Variance	Status
Units			100000	80000	80000		
Selling price	25	20		25	20	5	Unfavourable
Revenue			2500000	2000000	1600000	400000	Unfavourable
Less: Variable expenditure							
Direct material	2.5	3.5	250000	200000	280000	80000	Unfavourable
Direct Labour	4	5.5	400000	320000	440000	120000	Unfavourable
Overhead	1.5	1.5	150000	120000	120000	0	
Contribution	17	9.5	1700000	1360000	760000	600000	Unfavourable
Less: Fixed expenditure							
Warehouse rental			200000	200000	170000	30000	Favourable
Insurances			100000	100000	100000	0	
Full time warehouse supervisor salary			50000	50000	35000	15000	Favourable
Net profit			1350000	1010000	455000	555000	Unfavourable

Section 2: Present performance analysis of Amana Ltd on the above computations

On the basis of the basic principles of business, cost reduction is important to take initiatives for cost for the maintenance of appropriate profitability (Masur and Posner, 2018). Nonetheless, for the right application of strategic maintenance, it is important to take necessary care of the quality of the product to make sure the economic outcome. A decrease in the quality to keep a balance in the expenditure will result in a decrease in the sale. Therefore, the management should be conscious about the investment and expenditure by doing proper budgeting. Budgeting is, thus, mandatory for the providence of a proper approach to understanding the financial performance that will make clear the areas of

development in the economic factors of the business. In this context, the mention of variance analysis is required to show the amount of differentiation between two separate approaches in order to begin the right development (Nishimura, 2019). The variance analysis of the business is applied to show a differentiation in the computation between budget performance and actual performance of the business for the recognition of the business competence effectively.

Depending on the provided details of variance analysis found from the computation of Amana Ltd, a difference in value is noticeable that shows the total result of actual performance in the business that denotes a lower approach in comparison to the anticipated result of the budget (Chugunov and Makohon, 2019). At first, the anticipated results are compared to show the amount of production of business. The anticipated revenue also indicates that there has been a decrease in the sale by 20% that has affected the total sale of the business as a whole. In the same manner, negative results can be observed in the variable expenditure of the business in which the price of the direct material has increased by 4% in comparison to budget performance (Beetsma *et al.*, 2017). The price of direct labour has also increased by 38%. The pandemic situation has particularly increased the labour cost. This has resulted in the increase in expenditure in the same manner and the outcome is visible in the level of business contribution also. The budget performance shows that the total amount of contribution should be 1700000, but the actual performance shows that the level of contribution has decreased to 760000 marking a gap of 55% when compared to the anticipated level of outcome (Suurd, 2020). The same approach shows that a good amount of change in the fixed expenditure has occurred that has instigated the decrease in net profitability level. This shows that the present approach that the business has taken is performing in an unsatisfactory and uncertain way. Therefore, the organisation should improve its strategies to make sure that there is increased profitability and improved management.

The above discussion brings to this understanding that the organisation's economic performance as a whole is in an unsatisfactory state at present in the market situation. This scenario has arisen due to the imbalance in financial stability in the pandemic situation. Therefore, there is a need for some significant development of the business that can come from strategic developments that will ascertain better growth and development of the business.

Section 3: Recommendations to management and CEO of Amana in development of business performance

The above discussion has made it clear from the differentiation in budget performance and actual performance that the business leaders should take an appropriate growth strategy such as development initiatives are required in the current situation of the business in order to ensure an efficient approach in the long-term growth of the organisation (Chugunov *et al.*, 2019). The current scenario shows that the revenue earned by the organisation is lower than what is expected from the budget level. The causes have been cited as the increase in expenditure and the increase in labour cost.

Based on this situation, the business administrators must focus on significant development of the business incorporating market R&D and strategy of productivity enhancement to ensure the increase in the level of business production and revenue. In the same way, the expenditure of the business is also showing high performance in per-unit price comparatively which is acting as an economic burden on the current situation and the business. The same approach should be taken by the management to start the right cost reduction strategy to reduce the business's expenditure level to keep a good amount of profit level. The management should also focus on the promotion of the business for the increase in productivity and attraction of customers besides cost reduction and other financial strategies to reduce expenditure (Alvarez-Milán *et al.*, 2018). The greater amount of promotion will highlight the best sides of the organisation and its products and develop the organisation's brand value. This application of these strategies will be beneficial for the operational and financial consistency of the financial structure of the business hereafter.

It is recommended to the organisation that the management should use these strategies for the financial growth of the business that will mark financial stability as inclusion. These recommendations should be followed by the organisation as soon as possible to ascertain a decrease in the amount of loss in business.

Part B: Business Decision-making Approach

The general rules of costing principles show that the analysis of cost-benefit is applicable for the examination of the financial and operational competency to mark the business development. This means that maximum manufacturing companies evaluate the returning capacity prior to making any considerable business investment and give significance to the cost structure in the right manner. The current market situation shows that the cost level is high in comparison to the expected condition and this means the opportunity of the ability to

return is based on flexible positions. Such a situation generally finds the leader avoiding the project.

In the case of the total time of reimbursement of cost or business expenditure higher than the differentiated time of the project, according to the principles of economic management, then the project is denied for convenience. Cost-benefit is applied to create a satisfactory condition of business revenue (Zolnowski *et al.*, 2017). This will better the situation of the organisation by bringing a new cost structure suitable for the business. Thus, the cost-benefit analysis requires the business leaders to examine the cost of every department effectively in order to avoid any unsatisfactory approach to business.

Cost benefits analysis of Mr Amana's business

The current details found out reveals that Mr Amana is looking forward to beginning online sales because maximum competitors of the organisation have already begun online sale in Europe, the UK and the US. At present, Mr Amana is mostly operating in Manchester City Centre and Birmingham City Centre. He wishes to go online with his business activities and shift 50% of his business to online in order to keep pace with the pandemic situation. To explain the scenario better, the details of business expenditure along with the performance of general trading have been provided below (Gigli *et al.*, 2019).

Particulars	Amount
Cost of setting up delivery network	150000
Cost of upgrading current website to handle large volume of sales	50000
Salary of a full time IT programmer	35000
Aggregate costing	235000

According to the results of the computation, the total charges of general expenditure of business marks about 235000 of the similar performance of key products. However, on the other hand, in the case of the owner wishing to shift the business transaction online in place of general trading performance, he will get 50000 as a fulfilment charge for the business. Moreover, the online reading will also not require from the organisation any additional cost of business. It is, thus, understood that the management has begun the basic trading performance and on the basis of market research, the organisation will make 100,000 units of sale per year. In case the management has started the reading approach through online access, then the sale will positively be 65000 units, as ensured by entrepreneurs generally. This is a

much better scenario than the loss that the organisation has been suffering in the current time.

It is found from the discussed issue that the current pandemic situation says that the management of the organisation should convert to online transactions for an increased amount of revenue (Cordes, 2017). The example of Tesco, a leading retailer of the United Kingdom, can be brought in this aspect to show how the company has started online transactions for greater customer engagement and keeping the supply chain intact (Smart Insights, 2021). This creates a sense of security in the minds of the customers in this pandemic situation of COVID-19 and they are safer in online payment rather than physical activities in the store. This strategy is effective to ensure that the finance and customer engagement of the business will increase. The strategy gives way for the development of the business in a positive manner as a whole.

Therefore, it can be recommended that the owner of the business should definitely move forward with the idea of the online transaction to make sure that the business is increasing its level of sustainable development and keeping consistency in the business.

Conclusion

The end of the discussion should most importantly recognise the relevance of accounting performance in the development of the business. This includes the financial consistency and stability of the business in the right way. The leaders and stakeholders of the business should understand the main reasons behind the increased expenditure and decreased profitability of the business to make a positive approach towards the competency of the business. They need to focus on the strategic development of the business for the sustainability and long-term success of the business. The cost structure should be well maintained after the application of the mentioned strategies for the improved financial management of the organisation.

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