



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Vlada Popov

ID number: 1907614

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Management Accounting

Module Lecture's Name: Winifred Soribe

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Executive Summary

Amana Ltd.'s huge loss of net profit came from the unfavorable quantity and selling price variances of revenue and unfavorable spending variances of raw material and labor cost. It is recommended as a manager of the company to enhance product demands through changing its target customer and through offering goods online. To enhance efficiency it must raise its supplier numbers and must be more prudent in HR management. as per the choice of the delivery system is concerned, the company should establish its delivery network due to higher guaranteed sales and control.

Introduction

The reports provide an application of managerial accounting's flexible budgets and tools for performance analysis. as manager hired by Amana Ltd., a privately family-owned business tourist business generating revenue through the sale of Souvenirs, this reports, firstly provides a report through which the variance at the budgeted quantity level of souvenirs sale has been prepared for locating quantity variance. Then it provides a performance analysis report through which the variances have been explained. The second part of the report provides suggestions to the company seeking to go online about they should set up their own online platform for the sale of souvenirs or should sell through Amazon with necessary logic and explanations.

Part A

Construction of a monthly report containing Amana Ltd/'s monthly planned budget, Flexible budget, and quantity variances

Table name: Calculation of Planned budgetary income statement, flexible budgetary income statement with their variance

Items	Flexible Budget	Planning Budget	Variance	Favorability of the Variances
Units of Souvenirs sold (Q)	80,000.0	100,000.0		
Revenue (25.00Q)	2,000,000.0	2,500,000.0	(500,000.0)	Unfavorable
Variable Expense				
Raw materials (2.50Q)	200,000.0	250,000.0	(50,000.0)	Favorable
Labor Expense (4.00Q)	320,000.0	400,000.0	(80,000.0)	Favorable
Overhead Expense (1.50Q)	120,000.0	150,000.0	(30,000.0)	Favorable
Total Variable Expense	640,000.0	800,000.0	(160,000.0)	Favorable
Contribution Margin	1360,000.0	1,700,000.0	(340,000.0)	Unfavorable
Fixed Costs				
Rent of Warehouse (200,000.00)	200,000.0	200,000.0	-	-
Insurance Expense (100,000.00)	100,000.0	100,000.0	-	-

Salary of the Full-time Warehouse Supervisor (50,000.00)	50,000.0	50,000.0	-	-
Total Fixed Expense	350,000.0	350,000.0	-	-
Total Expense	990,000.0	1,150,000.0	(160,000.0)	Favorable
Net Profit or net operating profit	<u>1,010,000.0</u>	<u>1,350,000.0</u>	<u>(340,000.0)</u>	<u>Unfavorable</u>

Source: Author

Comments: A flexible budget is a budget calculated at the end of the budgetary period reflecting the state of the costs, revenue, and expenses and finally, profits in case planned level of sales were made (Karlina, 2021). The differences between the budgetary figures of these two budgets are called activity variances. Activity variances mean the difference between the planned level of performance and actual level of performance if the planned level of activities could have been ensured in both cases (Roberts, 2020). In the above, Amana Ltd.'s shows unfavorable revenue variance stemming from the sale of souvenirs made at lower sales price. All the costs' quantity or activity variances should be favorable if the company's management can efficiently and effectively control its costs. Despite the possibility of achieving favorable variable expense variance, the net profit quantity variance was unfavorable due to the higher amount of unfavorable quantity variance of revenue compared to quantity variances of costs. The revenue's favorable quantity variances were 500,000.0 whereas the favorable quantity variances of costs were only 160,000.0. Consequently, the unfavorable quantity variance of contribution and net profit was 340,000.00.

The construction of performance report of Amana Ltd.

The performance report will contain both Quantity variance and revenue and spending variance. Quantity variance is calculated through the calculation of the differences of the budgetary figures of constructed planning budget and flexible budget (Francia, 2020). Spending variances can be defined as the variances that occurred between actual cost figures and the planned performances calculate based on the actual activity of sales level (Libby, 2020). The performance report combining these variances are given below:

Amana Ltd.

Performance report

For the year ended 2020

Items	Actual performance	Revenue spending variances	Favorability of Revenue and spending variances	Flexible Budget	Activity or sales quantity Variances	Favorability of the quantity variances	Planning Budget
Units of Souvenirs sold (Q)	80,000.0			80,000.0			100,000.0
Revenue (25.00Q)	1,600,000.0	(400,000.0)	Unfavorable	2,000,000.0	(500,000.0)	Unfavorable	2,500,000.0
Variable Expense		-		-	-	-	-
Raw materials (2.50Q)	280,000.0	80,000.0	Unfavorable	200,000.0	(50,000.0)	Favorable	250,000.0
Labor Expense (4.00Q)	440,000.0	120,000.0	Unfavorable	320,000.0	(80,000.0)	Favorable	400,000.0
Overhead Expense (1.50Q)	120,000.0	-	-	120,000.0	(30,000.0)	Favorable	150,000.0
Total Variable Expense	840,000.0	200,000.0	Unfavorable	640,000.0	(160,000.0)	Favorable	800,000.0
Contribution margin	1,160,000.0	(200,000.0)	Unfavorable	1,360,000.0	(340,000.0)	Unfavorable	1,700,000.0
Fixed Costs		-		-	-	-	-
Rent of Warehouse (200,000.00)	170,000.0	(30,000.0)	Favorable	200,000.0	-	-	200,000.0
Insurance Expense (100,000.00)	100,000.0	-	-	100,000.0	-	-	100,000.0
Salary of the Full-time Warehouse Supervisor (50,000.00)	35,000.0	(15,000.0)	Favorable	50,000.0	-	-	50,000.0

Total Fixed Expense	305,000.0	(45,000.0)	Favorable	350,000.0	-	-	350,000.0
Total Expense	1,145,000.0	155,000.0	Unfavorable	990,000.0	(160,000.0)	Favorable	1,150,000.0
Net Profit or net operating profit	455,000.0	(555,000.0)	Unfavorable	1,010,000.0	(340,000.0)	Unfavorable	1,350,000.0

Source: Author

Comment: the above analysis shows an unfavorable revenue variance of nearly 400,000 and an unfavorable quantity variance of revenue of 500,000. The differences were due to lower sales quantity and lower selling price. The company had planned to sell 100,000.0 quantities of souvenirs but it could only generate demand enough to sell 80000 quantities of souvenirs. Even it had to sell its products at nearly 20% reduced prices due to worldwide long downs and restriction in the movement to quell the spread of the deadly Covid-19 diseases (Lopez, 2020). Out of the total 900,000 revenue variances, 500,000 variances stemmed from a decrease in the quantities of souvenirs sold by the company and the rest 400,000 was due to the reduced price due to lower demand for the company's products. As per the variable cost variances are concerned, the variances of costs due to the changes in quantity sales should have been favorable but the spending variances indicate the business could not effectively and efficiently control its variable costs. Out of the total variable expense variances, labor cost variances were highest which means the business could not effectively perform HR management. the favorable fixed cost variances were justifiable, as the pandemic reduced most of the movement all sort of businesses reduced their services and produced prices (Hauge, 2020). In the same way, insurance companies reduced the expense of their insurance, the rental company reduced their rents. They combined made Amana Ltd.'s fixed cost variances favorable. The raw material's cost variances were unfavorable due to disruptions in the supply chain of the world due to the pandemic (Navarrete, 2020). The overhead variances were unfavorable probably for inefficient management of the businesses. Ultimately the high amount of revenue variances and quantity variances of revenues caused the business to incur a huge amount of contribution margin, net profit, and net operating profit margin. Out of 895,000.00 net profit

variances, 340,000.00 variances were due to drop in the company's products' demand and sales and the rest were due to the combination of inefficient management of costs and reduction in the company's products' sale price due to the Covid-19.

Suggestions to Amana Ltd.'s management about the sectors where improvements can be made

The first suggestion to the company's CEO will be to enhance the demand for the company's products. As various vaccines of the deadly disease have been invented, it can be expected that within some time the strict restriction will be lifted. This will enhance the company's products' demand. But the company should not solely wait for the restriction to be lifted. It must start selling its products online. Their main targeted customers are tourists. But due to the economic hardship people are facing, it is expected that the world will experience a decline in the movement even after vaccines are provided. So, the company should change its targeted customers. It can offer its products to other types of customers. It can set young people as their target customers as they have the propensity to spend more on drinks and souvenirs. Young people and Childs spend 20% more on souvenirs than other aged persons (Iqbal, 2021). It can capture this burgeoning market share.

Besides, the second suggestion to the company is that reduce its raw material costs. For this, it must enhance its number of suppliers. Fewer suppliers enhance the chance of enhancement of material cost by manufacturers in unforeseen unfavorable situations. It can also shorten its value chain by producing the raw materials for souvenirs all by itself. A value chain is a chain of activities through which customers of a company receive their goods and all other core and auxiliary services from the company (Phillips, 2020). The lower the value chain of a company, the higher will be the profit of that company.

The third suggestion is to reduce the labor cost of the company. The company can do it in two ways. Either it can sack some employees who are unproductive and inefficient in their work or it can reduce the wages of the labor. The first option is better. Because the reduction of wages creates a negative feeling and perception among the employees for the employer which causes them to show distortive behavior (Whitecotton, 2020). So, it is a more effective and efficient decision to go for the layoffs.

Part B

The analysis of the options of selling half of Amana Ltd.'s products through online channels

So, to cope with the new normal situation where the movement of people is being discouraged internationally due to the spread of the covid-19, Amana Ltd. must change its sales channel (Dawson, 2020). To follow the plan of selling half of its sales quantity, the business must choose among two options. It can either directly establish its own delivery network or it can sell its products through Amazon, the largest online delivery in the world.

The guaranteed sales figures show the company should go for the establishment of its own delivery system. But the costs suggest the company should go for selling its product through Amazon.

Based on the given information, the company should establish its own delivery system rather than selling through Amazon.

The reason behind this suggestion is that Amazon is the biggest retail online system in the world which means the level of competition will be very high. Through Amazon, more than 300,000.00 companies' products are sold (Amazon, 2020). This means the level of competition is very intense. The company will face difficulty in capturing. In contrast, in its own delivery system, it will not face any sort of competition.

the 2nd reason is that the company will have full control of this own system. In contrast, in the process of sale through Amazon, the system's full control will be in the hands of Amazon. As a result, any system failure will cause Amana Ltd. to lose money despite not having any control over the system. In 2020 Tsar Kangaroo system failure in Amazon Uk caused the business to lose many customers. Besides the level of complaints against amazon has enhanced in 2020 from 2019 (Jacob, 2020). The complaints include late delivery, improper packaging, system loadings, etc. these complaints may cause Amana Ltd. to lose revenue. But if it establishes its own delivery system, it will be able to directly deal with these problems rather than wait for Amazon to respond.

The third argument is that through its own delivery system, the company will get a guaranteed sale of 100,000.00 quantities which is nearly 54% more than that of Amazon. As seen earlier, the company lost nearly £500,000.00 sole due to a decline in selling quantity. The company must

enhance its sales level to turn things around as seen the company has already lost £895,000.00 net profit mostly due to a decrease in sales quantity. Besides, if the company can provide effective and efficient services through the system, it will be possible for the company to further enhance the sales quantity through the delivery system (Mansoor, 2021).

The 4th reason for the establishment of the own network is that the establishment of the own delivery network has a lower fixed cost than that of Amazon. Amazon will cost 50000.00 per year whereas the own system will cost only 35,000.00, though the initial cost will be high. But the initial cost should not be a problem because the company can recover its initial costs by selling souvenirs below 100,000.00 quantities. The quantity of souvenirs required to be sold to recover initial cost, in case each souvenir is sold at £20.0 per unit = $(200000+35000)/20 = 11,750.00$. the fixed cost is added because without the salaries of the IT programmer the system cannot be operated. As, the market research guaranteed a sale of 100,000.00 and if this research is correct, the company will be able to cover its initial cost very early in the first year.

One counter agreement against the establishment of own system can be that there is a possibility of growth in the case of selling through Amazon. But growth does not naturally come. It requires a heavy investment in advertising. Though the same level of advertising will be required in case of popularizing the own established system, the company's own system guarantees more sales than Amazon's. besides, to grow the sales on Amazon, the company has to compete with more than 9000 shops that sell the same types of products on Amazon (Amazon, 2021). Besides, some of the companies selling on Amazon have been successful in establishing themselves as a brand. To compete with those companies on the same platform, the company may have incurred huge monies on advertising.

Besides, if the company could popularize the delivery system, it will be able to introduce newer products through the network system. Besides, having an own delivery system will enhance the image of the company among its customers which will assist the business in escalating the demand for its products. Because very few companies have their own delivery system to deliver their products online to their customers (Iqbal, 2021).

In short, the company should go for the establishment of its own delivery system rather than selling online. Because the company's own delivery system will give full control of the system to the company (Peter, 2020). Besides, it will guarantee higher quantities of sales annually than sales

through Amazon. Also, it will enhance the company's image among its competitors and can add value to the company's products.

Conclusion

The variance analysis of Amana Ltd. showed the company had suffered huge profits due to a decline in demand for the company's products and inefficient handling of labor costs and raw material costs. The recommendation is to enhance products' demands through offering products on online channels, changing its target customers. For improvement of material cost management, enhancement of the number of suppliers is recommended. It is recommended to the company establish its own delivery channel rather than selling its products Online.

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