

MANAGEMENT ACCOUNTING

ASSESSMENT 2

MODULE LCBB5002

LECTURER: Winifred Soribe

Student ID 1918685 Carlos Jimenez Carrasco

Contents

Part A:	3
Part B:	7
References:	10

Part A:

Here is the Amana Ltd's monthly control report presented

Control Report for Amana Ltd

Items	Cost per unit	Original (£)	Flexed (£)	Actual (£)	Variance
Units		100,000	100,000	80,000	
Selling price	25	25	25	20	(5) Adverse
Revenue		2,500,000	2,500,000	1,600,000	(900,000) Adverse
Variable costs:					
Materials	2.50	250,000	250,000	200,000	(50,000) Adverse
Labour	4	400,000	400,000	320,000	(80,000) Adverse
Overhead	1.50	150,000	150,000	120,000	(30,000) Adverse
Contribution	17	1,700,000	1,700,000	960,000	(740,000) Adverse
Fixed overheads:					
Warehouse rent		175,000	175,000	165,000	10,000 Favourable
Insurance		100,000	100,000	100,000	0
Supervisor salary		65,000	65,000	45,000	20,000 Favourable
Profit		1,360,000	1,360,000	650,000	(710,000) Adverse

Note: the fixed overheads or expenses are effectively forecasted by the management as there is not frequent alteration noticed in the fixed cost and from time to time variation is not

noticed in this expenses and also firm's majority part of expenses comes under this which consists of salary, rent, and insurance premium. In the flexible budget there is no dependence to the output units the fixed expenses remains constant in nature but as the company's sales performance is decreased in comparison to sales output that is budgeted that leads to upliftment of the fixed cost on per unit basis (Rikhardsson., 2018).

Computation of Variances

The dataset's variability is calculated or measured by the firm in which assistance of variance is taken. The point of differences which are present in between the actual performance and the budgeted performance and effectively found out and evaluated by assistance of variance analysis, measuring method and by this the management can take right decisions for betterment of the firm (Ascani, *et al.*, 2021). In 2020 in firm Amana Ltd by utilisation of variance analysts in actual costs and budgeted costs and the variances present in them.

Note: the firm's performance is adverse and non- favorable in nature as indicated by the positive outcome of sales variables. On the other hand a firm's performance is good in terms of business is indicated by negative outcomes (Kudryashova, *et al.*, 2020). With the assistance of variable analysis the level of performance which the firm's management had forecasted has been effectively achieved by Amana Ltd is expressed in the report. In the report favourable outcomes were less in comparison to the non-favorable outcomes by use of variance.

(ii) In the time period of 2020 the Amana Ltd performance report has been formed by the assistance of control report

Proper assessment of Amana Ltd's control report states the company's overall performance and by this the determination of the differences in between actual performance and budget performance is done (Hiromoto, 2019). The business's sales performance and the budget which is actual the areas of improvement are noticed from which this can be found out the targets which are not achieved as various factors like outbreak of corona virus and various other things has affected the business to a large extent. In the year 2020 the firm's net profit margin as well as gross profit margin both can be determined by Amana Ltd as income statement can be formed which is help in forming firm's overall performance report. the

management of the firm as well as the firm's owners can effectively get benefited in decision making regarding the condition of the business, profitability, the ways in which minimisation of cost takes place as well as to income higher revenue by assistance of income statement. In the financial period's starting highlighting of the matter such as effectiveness of the decision making aspect as well as strategy formulation aspect is performed.

Amana Ltd's income statement:

Particulars	Amount (\$)	Amount (\$)
Sales revenue (80,000 units * \$20.00)		1,600,000.00
Less: cost of sales		
Material costs (80,000 units * \$ 2.50)	200,000.00	
Labour costs (80,000 units * \$ 4.00)	320,000.00	
Variable overhead costs (80,000 units * 1.50)	120,000.00	
		640,000.00
Gross profit margin		960,000.00
Less: fixed manufacturing overheads		
Warehouse rents	165,000.00	
Insurance premiums	100,000.00	
Warehouse supervisor salary	45,000.00	
		310,000.00
Net profit margin		650,000.00

The activities of business's results are outlined in Amana Ltd's performance report and in this activities it was seen that in 2020 in the productivity and profitability a drop has been seen as due to covid 19 and spread of this pandemic worldwide which impacts the business as it leads to lockdowns for which the tourism industry suffered losses in holiday sessions and for which the firm's overall sales gets a huge drop. Souvenirs were sold by the firm s to the travellers as the lockdowns started to open in the summer. But this sales made in summer by the company faced severe threat as from December 2020 to February 2021 lockdowns were again took

place as corona virus's new variants were there. In the process of decision making and formation of strategies ineffectiveness was seen in the reports of performance extracted from control report because the actual generated income of the organisation in the year 2020 was 3 times lesser than profit level which was estimated and \$ 650,000 was the profit of the firm in 2020. In the world all firms suffered a bit in the year 2020 but from budgeted performance level the Amana Ltd's performance of the business becomes lower as main components were outsourced from China on which the firm is dependent and the firm's production was impacted as corona originated from china and the facilities of online stores and e-commerce were not taken by the firm (Möller, *et al.*, 2020). The management's ineffectiveness in decision making and strategy formulation is indicated in the performance report of the firm.

(iii) Recommendations

In order to be profitable in long run enhancement of various areas are required and the company gets sustainability. In case of uncertain events and natural disasters the company cannot perform anything like the impact of Covid 19 by from this adverse situation the firm's CEO should understand how to deal with these things and in future for maintaining sustainability of the organisation. The business must be spread through e-commerce and via online platform which must be done by the CEO and various strategies should be formed so that online facilities must be provided to the consumers as they are also become aware about the services as advance technological changes takes place and this thinks assists in raising the firm's sales. And statistically it has been found out that all over the world most people prefers buying products online as the availability of the products are more in online and this is the reason for which Amana Ltd should utilize online channels and the profitability will raise (Hadid, *et al.*, 2021).

Management of the firm should be improved to a high level by CEO so that the firm can perform enhanced formulation of strategy and making good decisions. For constructing an effective budget various useful data are necessary for assembling of important data by analysts who gets them from the market and by this budgets are effectively formed by them and in between budgeted performance as well as actual performance variances gets decreased. Mainly because of the outbreak of global pandemic this variances in between the actual performance and budgeted performance has taken place. In order to gather more

knowledge regarding the possible chances which will assist in firm's sustainability and CEO should be aware regarding performances, variances, operation etc for the development.

For having improvements regarding distribution as well as supply networks and making them strong vertical integration are done by Amana Ltd and the firm's recognition enhances and outsourcing of the organisation is done from china and in this matter they have experience of 40 years.

Part B:

Available two opportunities are accessed properly and the perfect one is chosen for more profitability for Amana Ltd

After option 1 is selected, where transaction of sales are 50% performed through online channels Amana Ltd's Income statement

Particulars	Amount (\$)	Amount (\$)
A. Sales (100,000 units * 20.00)		20,00,000.00
B. Less: total costs of sales		
Material costs (100,000 units * \$ 3.50)	350,000.00	
Labour costs (100,000 units * \$ 5.50)	550,000.00	
Variable overhead costs (100,000 units * 1.50)	150,000.00	
Delivery network costs	150,000.00	
Website handling costs	50,000.00	
Salary of IT programmer	35,000.00	
Warehouse rent	170,000.00	
Insurance	100,000.00	
Supervisor salary	35,000.00	
Total cost		15,90,000.00
Net profit margin (A-B)		410,000.00

To Amazon if the items are sold directly, Amana Ltd's income statement

Particulars	Amount (\$)	Amount (\$)
A. Sales (65000 units * 20)		13,00,000.00
B. Less: total cost of sales		
Material costs (65, 000 units * \$ 3.50)	227,500.00	
Labour costs (65, 000 units * \$ 5.50)	357,500.00	
Variable overhead costs (65, 000 units * 1.50)	97,500.00	
Amazon fulfillment fees	50,000.00	
Warehouse rent	170,000.00	
Insurance	100,000.00	
Supervisor salary	35,000.00	
Total cost		10,37,500.00
Net profit/ (loss) margin (A-B)		2,62,500.00

Note:

With firm's every available option the associated costs are considered along with that consideration are done regarding operation of business as well as activities of production's costs so that determination of the cost which are attached with the available options and also highlighting of the profitability is done.

Decision:

The world evolved a lot with advancements in technology and the consumer's preferences shift from offline market to online market because there r various advantages present in it as individuals are able to save more time and can make various comparison while buying new products and this are very much necessary nowadays (Gunarathne, *et al.*, 2021). The necessity of the online channels has become prominent after the pandemic as during that time through online modes the consumers could avail the required services and items. So a crucial move for the organisation Amana Ltd is to shift the services to online channels as well and this must be executed by the firm's CEO and Mr. Amana should take crucial decisions regarding transferring the transaction of sales towards online that will lead to high level

profitability of the organisation. The brand value gets a hike and the products of the company reach a wide spread group because of shifting the sales via online mode. Amana Ltd has a loyal customer base and a great experience of 40 years in the tourism sector's marketing and moving to online mode will be very much beneficial for them.

For Amana Ltd there were two options where the 1st option is to shift online and there should be 50 percent sales executed and their activities are streamlined and direct selling is performed. And in 2nd option via Amazon the items are being sold. Different costs are to be considered while taking option 2 and selling via Amazon and in the income statement the cost are considered and in this years the organisation's profit levels are shown (Eldenburg, *et al.*, 2020). The company's sales will be enhanced to a huge extent as well as the item's demands will increase by choosing the 2nd option and the firm will have sales of 65,000 units guaranteed. By taking this option the company will have a good profit margin that is around 20.19% on sales at first stage and for production operations € 10, 37, 500 is the total cost required and the firm's profit margins is € 262,500. But by pursuing the 2nd option selling via Amazon various disadvantages are faced by Amana Ltd because immense level competitiveness is found in the platform because the other brands present there selling similar items and the firm will also does not have various abilities as they have contracted with Amazon and the pricing, exchange, returns etc will be not under the authority of Amana Ltd. In the 2nd option the company will lose their authority to a large extent to Amazon by taking the 2nd option and making contract with Amazon.

The company will shift to online direct sale by forming website online and in online 50 percent sales are performed by closing various stores in offline market in 1st option. This option has numerous advantages as the efficiency of the firm and the organisation progress to a something big and to many consumers they become available. For this step the company requires additional expenses on various aspects like delivery costing, online website set up, production procedure's costing and also costs of IT programmer's salary and this are borne by them (Knauer, *et al.*, 2020). For effectively running the operations all the fixed cost and the variables cost are required and the total costs by summing up becomes € 15,90,000 and the sale of around 100,000 is guaranteed as by performing market research the company has made that estimate. Amana Ltd's had a profit € 410,000 in the financial year and profit on sales is around 20.50%.

The firm must Switch to online website method as in that way the organisation will have more profit and the efficiency will be increased by doing this they will be able to acquire larger number of customers and as they have great brand value and 40 years of experience they will be able to gain more loyalty and it will be beneficial for the firm. Amana Ltd will be able to enjoy their own authority and control over the operations by setting up their own online website of the business whereas they will completely loss the authority of the firm if they make an agreement with Amazon to sale online (Susanto, 2019). The organisation will be more profitable as the cost will be much lower against the sales comparison to other ways. By setting the online stores the number of loyal buyers will be enhanced and this will lead to profit as more time will pass which will lower the cost and as sales increase with more number of buyers. The company will have a profit margin of 20.19% with making agreement with Amazon where as the profit margins are 20.50% while creating own online website.

The organisation must Switch to online website method as in that way the firm will have more profit and the efficiency will be increased by doing this they will be able to acquire larger number of customers. This will enable them to get customers from all channels and larger number of buyers can be reached in the whole world in an effective manner.

References:

- Rikhardsson, P. and Yigitbasioglu, O., 2018. Business intelligence & analytics in management accounting research: Status and future focus. *International Journal of Accounting Information Systems*, 29, pp.37-58.
- Ascani, I., Ciccola, R. and Chiucchi, M.S., 2021. A structured literature review about the role of management accountants in sustainability accounting and reporting. *Sustainability*, 13(4), p.2357.
- Hiromoto, T., 2019. Restoring the relevance of management accounting. In *Management Control Theory* (pp. 273-288). Routledge.
- Möller, K., Schäffer, U. and Verbeeten, F., 2020. Digitalization in management accounting and control: an editorial. *Journal of Management Control*, 31(1), pp.1-8.

Hadid, W. and Al-Sayed, M., 2021. Management accountants and strategic management accounting: The role of organizational culture and information systems. *Management Accounting Research*, 50, p.100725.

Gunarathne, A.N., Lee, K.H. and Hitigala Kaluarachchilage, P.K., 2021. Institutional pressures, environmental management strategy, and organizational performance: The role of environmental management accounting. *Business Strategy and the Environment*, 30(2), pp.825-839.

Eldenburg, L.G., Brooks, A., Oliver, J., Vesty, G., Dormer, R., Murthy, V. and Pawsey, N., 2020. *Management accounting*. John Wiley & Sons.

Knauer, T., Nikiforow, N. and Wagener, S., 2020. Determinants of information system quality and data quality in management accounting. *Journal of Management Control*, 31(1), pp.97-121.

Susanto, A., 2019. Antecedents of environmental management accounting and environmental performance: Evidence from Indonesian small and medium enterprises. *670216917*.

Kudryashova, Y.N., Lazareva, T.G., Makushina, T.N. and Chernova, Y.V., 2020. The organization of management accounting as a mechanism to improve the efficiency of agricultural enterprises. In *BIO Web of Conferences* (Vol. 17, p. 00028). EDP Sciences.