

Management Accounting

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INTRODUCTION

In today 's changing industrialized setting, management accounting framework is becoming a valuable component of business, managerial accounting guides and supports management at every level (Zhuo, W., Shao and Yang, 2018). Management accounting as a whole not only enhances the financial efficacy but also strengthens the efficiency of personnel. Accounting management boosts the corporation 's competitive capabilities. The goals of the multiple divisions and departments are outlined in depth, and the attainment of such targets is employed as a benchmark for assessing their performance. This study deals extensively with pivotal merits and also demerits of usage of the variances in evaluating business managers' efficiency and performance. There are also quantitative tasks related to the measurement of various variances, such as variances in sales price, variances in contribution sales volume, variances in operational material price and variance in materials price planning. In addition, the report consisting of debate on role of making or buying decisions focused on XLG business's case-study.

PART A

(i) Computation of the Sales price variances and sales volume contribution variances:

Sales price variance: The sale price variance implies difference among actual and the projected revenue arising from a shift in price of product. The equation is as follows:

$$\text{Sales price variance} = (\text{Actual Price} - \text{Standard Price}) * \text{Actual Unit}$$

The adverse variance means that actual price is smaller than estimated budgeted price, whereas favourable variance is result of reverse conditions. budgeted/estimated price for every product or unit shall be calculated by sales and marketing executives and shall be focused on their estimate of the potential demand for such goods and services, that, in effect, will be influenced by common economic circumstances and the acts of the rivals.

The case study XLG comprises the following details for calculation purposes as outlined below:		
Overall units quantities sold:	1600 units	
Material price variance:	£27000 F	
Sales and Contribution:		
	Chemical : X	Chemical : Y
Budgeted aggregate sales	595 units	595 units
Actual volume of Sales	850 units	750 units
Sales price: (Standard)	£ 35	£ 30
Sales price: (Actual)	£ 45	£ 37
Standard profit margin	£ 25	£ 20

<u>Chemical : X</u>	
Sales Price Variance (X) =	$(45 - 35) * 850 = 8500F$
<u>Chemical : Y</u>	
Sales Price Variance (Y) =	$(37 - 30) * 750 = 5250F$

Sales volume contribution variance: This is the difference among the actual and estimated no. of units sold, multiplied by budgeted price each unit (Wang and et. al., 2017). The equation is as follows:

Sales volume contribution variance = (Actual no. of units sold × Budgeted price per unit) – (budgeted number of units sold × Budgeted price per unit)

An adverse variance indicates that volume of units sold actually is smaller than number of budgeted units to be sold. Here, budgeted no. of units sold is generated from selling and marketing executives, which is focused on their assessment of how potential revenues will affect the

corporation 's product market sharing, features, price ranges, planned marketing efforts, distribution networks which revenues in new areas. If selling price of the commodity is smaller than the sum budgeted, this will stimulate sales to quite an extent that variance in sell volume is favourable, even if variance in sell price is adverse.

<u>Chemical X</u>	
Sales volume contribution variance (X) =	$(850 * 35) - (595 * 35) = 8925 \text{ F}$
<u>Chemical Y</u>	
Sales volume contribution variance (Y) =	$(750 * 30) - (595 * 30) = 4650 \text{ F}$

(ii). Computation of material price planning variance and material price operational variance:

Planning and operational variances could be measured for resources and labour, by contrasting original and updated estimates (planning) and modified budgets with real (operational) performance. A variation in commodity price forecasting is very useful in providing input on how effective executives are in predicting potential costs. An operational variance is quite more important as it calculates the efficiency of the buying department considering the business conditions which existed at time (Ju and et. al., 2017). This ignores variables that purchasing division cannot regulate.

The case study XLG comprises the following details for calculation purposes as outlined below:	
Original standard price	£2.50 per-unit
Increased(revised) unit price	£4.50

Material price operational variance:		
<u>Chemicals X</u>		
(A) Original budgeted sales x Standard Margin =	$595 * 2.5 * 25 =$	37187.5
(B) Revised budgeted sales x Standard Margin =	$595 * 4.5 * 25 =$	66937.5
Material price operational variance (A – B) =		-29750
<u>Chemicals Y</u>		
(A) Original budgeted sales x Standard Margin =	$595 * 2.5 * 20 =$	29750
(B) Revised budgeted sales x Standard Margin =	$595 * 4.5 * 20 =$	53550
Material price operational variance (A – B) =		-23800

Material price planning variance:		
<u>Chemicals X</u>		
(A) Revised budgeted sales x Standard Margin =	$595 * 4.5 * 25 =$	66937.5
(B) Actual Sales Quantity x Standard Margin	$850 * 25$	21250
Material price planning variance (A – B) =		45687.5
<u>Chemicals X</u>		
(A) Revised budgeted sales x Standard Margin =	$595 * 4.5 * 20 =$	53550
(B) Actual Sales Quantity x Standard Margin	$750 * 20$	15000
Material price planning variance (A – B) =		38550

(iii). Comprehend analysis of all substantial merits and demerits linked with variances use in determining managers' performance:

Analysis of variances is the review of differences in conventional costing method items. This is analysis and evaluation of all variables which induced the discrepancies among the standards/targets established and actual outcomes, with the target of minimizing deficiencies. The review of variances suggests capabilities and major indices but doesn't really specify what action, if any, ought to be undertaken. Until they could execute control steps the administrators should be provided to appropriately characterize the true sense of different-different variances.

Cost reduction and Cost control are the major objective which is performed in the activity of variance analysis. It plays an important role in costing on which efficiency is to be checked in variance analysis which results as favourable variance and inefficiency leads to unfavourable variance. By comparing actual with the budgeted, level of deviations is to be found and reason for such difference are also to be calculated (Fuller and et. al. 2016). If actual cost is less than the standard cost, then it leads to favourable variance and when the standard cost is less it results as unfavourable cost. By analysing it helps to find area of improvement for the company. Variance is to be analyse after considering the factors such as material, labour and overheads. By applying formula, it is easy to understand and calculate the variances and it became helpful in the activity of performing budgets also.

Some of the merits of variances are explained below in detail:

1. Measurement of performance: In Variance analysis detailed information after covering all the relevant facts are considered for measurement (Huang and et. al., 2019). Performance is not to be measured on the basis of assumption as deep evaluation is performed to find deviation. With the help of variance analysis, organisations are able to assess performances made by managers through proper care to not make costly assumptions as well as mistakes.
2. Accounting Responsibility: Variance analysis helps managers to accountable for the work they performed. In Companies there are various departments such as sales, Purchase, Production, Accounts etc. as variance analysis helps to answer for the work they done. Optimum utilisation of resources is to be done because it is known by managers and workers that all the performance is to be accountable.

3. Management by exemption: Variance analysis is to be calculated with proper care and attention, so it became helpful for the managers to understand the work properly by consuming less time.
4. It helps to find weakness: Deviations are to be found by comparing the actual with the standard and reasons of such weakness are also be find out.
5. Helpful in budget making: Variance Analysis makes great impact on budgets by considering all the cost as it helps at the time of preparing budget.
6. Improve the motivation level of employees: In variance analysis labour efficiency is calculated and if labour works efficiently they will be rewarded by managers which helps to improve their motivation level.
7. Easy to control: It became easy to control because different departments have different work and managers of that particular department perform their department function only it makes easy to find out deviation in variance analysis and makes control over it.
8. Improve skills of Managers: As all the work of calculating variance analysis is performed by managers with proper care and attention so due to repetition of similar type of work it improves skill of managers also (Duan and et. al., 2018).
9. Easy to understand: Variance Analysis calculation is easy and simple to understand by any person whether they have vast knowledge about that or not.
10. Reduces cost: cost reduction is the major objective performed by management. At the time of analysis of variances unreasonable cost must be excluded from it.
11. Improves quality of leadership: As the variance analysis is calculated by managers which fixes management responsibility and also improves leadership quality.
12. Level of coordination increase: Variance analysis also improves coordination among different department as work are interrelated and performed by different managers.
13. Easy to compare: comparison became possible in variance analysis so it is easy to take remedial action on time.

Demerits are also explained in detail in mentioned below points:

- Uncontrollable Variance are related to external factors: At the time of calculating various analysis some factors are unavoidable and uncontrollable such as non-availability of raw material due to natural calamity, reduction in the labour etc.

- **Difficult to predict:** In variance analysis calculation, external factors are also being considered so it is difficult to predict the problem. Forecasting is not to be possible so it involves huge expenses to meet the requirement of organisation (Gautier and et. al. , 2017).
- **Long-time gap which effects remedial action:** The activity of variance analysis depends on financial results so different time period is to be taken which involve large gap due to which remedy effects.
- **Manipulation of Variance:** To get favourable result incorrect measures are considered at the time of variance analysis by management to hide their inefficiency.
- **Time consuming activity:** It is not possible to take decision on the basis of little bit information. Large amount of time is needed to perform the functions of investigation. Variance analysis also involve various calculations by applying different formulas which consumes a lot of time.
- **Reporting Delay:** The figures are estimated at the yearend so the period of accounting to prepare budget is also increase. As calculations of variance analysis are critical in nature that causes delays in reporting.
- **Technological industry:** It is not convenient to calculate variance analysis for dynamic industry. Variance analysis is done only in manufacturing industry.
- **Co related activity:** Analysis is correlation activity which is also an another drawback of variance analysis.
- **Variance analysis is costly function:** Variance analysis become expensive if it is performed in small business because it requires professionals to find deviations who charge high charges for the work they performed.
- **Not to give proper reasons:** Reasons of something cannot be explained in variance analysis only requires allocation in some areas (Das, Ghosh and Jeffery, 2020). Minor mistake can lead to negative impact as calculation is to be performed by applying different formulas so it need prompt attention at the time of solving different variances, inaccurate result shows deficiency in calculation part.
- **Material requirement is high:** Inferior goods is used my managers so more material requirement is needed time to time which leads to increase in cost.

PART B

Make-or-buy decisions is a process of opting among in-house production or buying a product by an outside vendor (Roskosz, Chrapoński and Madej, 2020). Make-or-buy decisions, also refers to an outsourcing decision, contrasts costs and advantages involved with manufacturing a desired product internally with costs and benefits implicit with selecting an external supplier for products with query. In order to adequately determine costs, an organization must recognize all factors relating to the purchase and handling of the products versus production of the products in-house.

With respect to the in-house production, a company must involve costs related to procurement of any manufacturing process and cost of manufacturing. Making costs may include extra labour needed to manufacture the goods, specifications for storage within plant, total storage costs, including proper handling of any remains or by-products from manufacturing process (Carvalho and et. al., 2020). The buying costs associated with the purchase of the goods from an external source must involve price of good itself, certain delivery or import expenses and relevant local taxes. In addition, expenditures related to handling of incoming item and labour costs connected with receiving goods in stock must be taken into consideration by the organization. The findings of quantitative analysis can suffice to render a more efficient and cost-effective decision dependent on approach. At times, qualitative review explores any particular issues that a firm cannot objectively quantify.

The case-study presented concerning XLG organization is also focused on decision to making-or-buy. management needs to draw make-or-buy decision with regard to the famaQ in the corresponding case-study scenarios. For organization fama Q that is a cleaning agent of supreme quality is vital item in production that provides it with comparative edge. Patent secures this product and business XLG aims to producing it in-house. Business imports fama Q from Brazil and because of country-wide lock-down declared by UK authorities and restrictions, it was costly to import such item for the corporation. fnow this has to be transported by air transport but instead through sea transport since lock-down, which has raised the price of unit of fama Q to 4.5 every unit as-well-as actual price charged is 3.7 each unit.

Because of such exceptional circumstance, now corporation is contemplating in-housing fama Q. Item's price is primarily a big variable in making-or-buying decisions. for every

individual unit the originally standard price of the fama-Q is 2.5. The cost to make fama Q is 3. The relevant data provided herein is that the in-house alternative would have a 15-day cut in the delivery time. Therefore, taking into account all such details as the above comments, make-or-buy decision evaluation is as described in the light of the fama Q:

Analysis of Making Decision:

The table described depicts the effect of business decision of in-housing of the fama Q, as here below:

If In-housing production of fama Q:	Chemical X					Chemical Y				
	Budgeted (595 units)		Actual (862.75 units)		Varian ce	Budgeted (595 units)		Actual (862.75 units)		Varian ce
Selling Price	45	26775	45	38823.75	12048.75	35	20825	37	31921.75	11096.75
Cost of Chemicals	20	11900	20	17255	5355	10	5950	17	14666.75	8716.75
Increase in cost due to in- house of production of Fama Q				431.375	431.375				431.375	431.375
			0.5		-			0.5		
Total Cost	20.5	12197.5	21.2	17686.375	5488.875	10	5950	17.5	15098.125	9148.125
Profit Margin	24.5	14577.5	23.8	21137.375	6559.875	25	14875	19.5	16823.625	1948.625

Working Note:

Computation of Demand(units) based on the new scenario: (Demand expected to be risen by 45 percent)		
Chemical X	595 units + 595 units *45% =	862.75
Chemical Y	595 units + 595 units * 45% =	862.75

By reviewing the decision to purchase fama Q, it has been determined that in context of both chemical X and Y production, profit level would increase by around 6559.87 and 1948.62 respectively. For both cases, the actual profits would therefore surpass the actual budgeted amount of profits.

Analysis of Buying Decision:

If Imports:	Chemical X					Chemical Y				
	Budgeted (595 units)		Actual (850 units)		Varian ce	Budgeted (595 units)		Actual (750 units)		Varian ce
Selling Price	35	20825	45	38250	17425	35	20825	37	27750	6925
Cost of Chemicals	10	5950	20	17000	11050	10	5950	17	12750	6800
Incremental cost due to importing of Fama Q	-		1.2	1020	1020	-		1.2	900	900
Aggregate Cost	10	5950	21.2	18020	12070	10	5950	18.2	13650	7700
Profit Margin	25	14875	23.8	20230	5355	25	14875	18.8	14100	-775

Review of the table attached-above reveals that in relation to chemical X such decision will result in profit rise of 5355 whereas in relation to chemical Y there will be loss of GBP775. In the case of Y, the total budgeted profits will also be decrease from GBP14875 to GBP14100.

Therefore, after analysing both the decisions, it has been ascertained that it will be more practical and efficient to make decisions in the context of fama Q. Profits would improve by in house of product fama Q. Rather of purchasing it, company must consider in-housing fama Q. As profits figure for in-house alternative is higher than for both the chemical X and Y relative to fama Q purchase / import. Therefore, XLG organization is firmly advised to produce fama Q in-house, but business must weigh certain considerations relevant to fama Q such as competitive advantages, fama Q's patent, etc. before making ultimate decisions.

CONCLUSION

It has been examined from the above-mentioned report that business decision-making is solely based on the management accounting. It helps management to undertake strategic decisions that are most efficient, important and successful. When making a decision such as making or purchasing, all potential options and factors that can affect the final decision must be checked. Examination of variation attributes all the big strengths and limitations as to help management decisions.

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