

Amana Ltd

Student Name: Milena Petrova

Student ID:1916909

Lecture's Name: Widin Shaven

Management Accounting

Part A

UK tourism sector has been adversely affected by the coronavirus pandemic. This is because there has been lockdowns and international travel restrictions. The companies operating in the industry have lost revenues and need to put a strategy that will ensure that the company generates a profit as a solution to the pandemic is found. Amana Ltd has been selling Souvenirs in the UK, and with the reduced number of visitors, the company has not been able to meet its target in terms of sales. This report evaluates the company's performance and recommends a new strategy that can help it create value as the end to the pandemic cannot be predicted. A solution that the company is pursuing is engaging in online sales. It also faces two alternatives: selling using its website and selling through Amazon, which a third party company runs an already existing website. Each of these alternatives has costs, and comparing the consequences of each can help come up with a clear solution. Costs and benefits are evaluated to understand the impact of each alternative before a recommendable solution is arrived at.

Monthly control report

With the actual budget and original budget, it is possible to determine the variances in performance, which is achieved by preparing a flexed budget. The flexed budget relies on the standards in the original budget in terms of costs and expenses. It helps to predict what costs and expenses should have been, considering that the company ended up selling fewer souvenirs than it had planned. It thus helps check whether the company's performance is in line with the original plans, hence can help guide in deciding whether there are some control measures needed in some of the costs and revenue sources. The following is the monthly control report for the company;

	Original	Actual	Flexed	Variance	Comments
Units	100000	80000	80000	-20000	U
selling price	25	20	25	-5	U
Variable costs					
Materials	2.5	280000	200000	80000	U
Labour	4	440000	320000	120000	U
Overhead	1.5	120000	120000	0	N
Contribution	17	760000	1360000	-600000	U
Fixed Overheads					
Warehouse rental	200000	170000	200000	-30000	F
Insurance	100000	100000	100000	0	N
Full-time warehouse supervisor salary	50000	35000	50000	-15000	F

In this case, U means unfavourable and tells that the company performance is poor as compared to the original plans for the company and would require some control measures. On the other hand, N means neutral, and it means that the performance for the company is as per the plans (Shim & Siegel, 2009). F means favourable performance, and it means that the company performed better than it was predicted. Such good performance requires no action to be taken since nothing needs to be corrected, and the kind of performance needs to be encouraged.

Amana's Performance report

The analysis in the previous section shows that there are various areas where the company did not perform well. First, there was an unfavourable performance in terms of the number of units sold. The units sold was lower than the projected units, and this means that the revenue generated for the period was lower than what projected. Additionally, the units sold at an unfavourable price of \$20 as opposed to \$25, and this would further lead to the decline in the revenue generated for the period (Clowes & Scriven, 2010). Thus, the company needs to find ways of increasing sales and ensuring that souvenirs are sold at the projected price in the market.

Based on the control report, the actual cost of materials is higher than the flexed amounts, which means that the company spent more on materials than it should have spent. There is a need to find ways of managing the cost of materials. The same is the case for labour, where the flexed values are lower than the actual value, indicating that there was overspending on labour which needs to be reduced to achieve positive profits in the future. This is why the contribution was lower than expected, hence the unfavourable performance for the company. Variable overheads were as per the plan, which means that no action should be taken as the company is performing as planned. Overall, the company did not do well in control of the variable expenses, and this is an area that should be addressed for sustained profitability in the future.

Looking at the fixed overheads, it was expected that they remain the same, as they are not variable. The insurance overhead remained as planned, which was okay for the company. However, the warehouse rental reduced, and this was saving on the part of the company. Additionally, the warehouse supervisor's salary was reduced, which helped the company reduce its costs (Holtzman, 2013). Thus, the company did an excellent job managing its overheads and is in line with the current situation where companies can negotiate with employees to reduce salaries or seek reprieve from their partners, including those that rent space to them in the course of business operations.

The data can also be used to find out the net profit that the company generates. The following is the summary of the performance;

	Flexed	Actual
Revenues	2000000	1600000
Variable costs	640000	840000
Gross profits	1360000	760000
Fixed overheads	350000	305000
Net profits	1010000	455000

It can be observed that the actual profit for the company was positive, meaning that profit was generated regardless of the drop in revenue and increased costs. However, the actual net profit is

less than the company's profit could have generated if it performed as per the initial targets/standards (Livingstone & Grossman, 2009). While the company is doing well regardless of the challenges faced in the industry, it has not achieved its budgeted targets, and there is a need for improvement as the trend in performance is not suitable for the company.

Recommendations on areas of improvement

First, the company needs to improve in marketing and supply of the products to the customers, so that the quantities sold are increased. An example is ensuring that customers who cannot buy the products from the physical stores can order them online and have them delivered at a place of convenience. As such, the current plan to have an online store should be taken seriously as it can help increase sales output.

Additionally, the company lowered its price but still achieved lower sales output. There is a need to revert to the initial price of souvenirs since the goods have a low price elasticity of demand. Having a higher price does not significantly affect the demand, and adjusting to the planned price of \$25 can help increase revenues (Livingstone & Grossman, 2009). The management should thus consider the impact of increasing the price since this can help generate additional revenues.

The company needs to negotiate the price of souvenirs from the suppliers. With the covid 19 pandemics, the demand for the products has declined, and the price needs to be lower than the initial price. The management should thus seek souvenirs from the suppliers who offer better prices than the current situation where the prices were increased regardless of the low demand in the market. Low cost of materials can help achieve a higher contribution for the company.

For the case of labour, the companies in the industry hire depending on demand. Amana Ltd should consider stopping the employment of new workers, leading to increased labour costs. It further needs to lay off some employees, especially those temporarily. Alternatively, the working hours can be reduced, so workers are paid lower wages (Holtzman, 2013). The low demand means that the workers are likely to be idler, and reducing their work hours does not adversely affect their productivity. Lowering the cost of labour can further help in increasing the contribution and the net profit for the company.

The company also needs to find ways of reducing variable overheads. Considering that the sales levels have been declining, the company needs to find ways of reducing the variable overheads to remain with some profits.

The company has been able to reduce warehouse rental costs. The company can further reduce the rental charges, considering that it is migrating to offering sales online. It can reduce the number of warehouses as it also closes down stores so that most of the sales are made from a central warehouse where logistics are planned. The products can also be ordered from the suppliers when the customers place an order, instead of storing them in warehouses and waiting for the customers. This can ensure that the items are stored for only a short time in the warehouse, reducing the total rent that the company pays.

Summary for Part A

Amana Ltd needs to find areas where costs and expenses can be reduced. The variable costs can be reduced by careful spending and negotiations with the suppliers and employees. Other fixed expenses can also be reduced if proper negotiations are done with the trade partners such as insurance providers. The company can minimise rental expense by reducing the time the souvenirs spend in warehouses, and orders can be placed when the customers need the products.

Part B

Amana's Integration to Ecommerce Platform

Amana Ltd has confirmed that there has been a growth in online sales, especially among the competitors. The company can close some of its stores in the UK and sell its products online. This will enable it to make sales to customers in UK, Europe and the United States. Doing this will enable the company to increase its sales revenue, hence reverse the current trend where the sales are below the planned amounts. There are two alternatives to this case, and one involves improving on the existing online platform for the company, which will include setting up some capital for this activity. Alternatively, the company can sell on the Amazon platform, where it is expected to pay some fees and then sell the products. Each of the alternatives has some costs and benefits. There is a need to choose the best alternative that is cheaper and can maximise sales.

Moving 50% of the sales online (using company website)

If the company closes some outlets and improves on its website to make sales, the following is the expected budget;

Costs	Amount in £
Setting up a delivery network	150000
Upgrading website	50000
Full time IT programmer	35000
Total costs	235000
Revenues (at £25)	2500000
Total benefits	2265000

The analysis shows that the company would achieve positive benefits for the period if it moved 50% of its sales to its online website. There is a need to compare the costs and benefits if it moves to the Amazon website sales;

Sale using Amazon website

Costs	Amount in £
Amazon fees	50000
Benefits	
Revenues	1625000
Total benefits	1575000

Selling on the Amazon website has less costs as there is already an established network and website. However, the company may have to deal with returned goods and fluctuation in prices as competitors also sell their goods on the website. Based on the available figures, it would be reasonable to sell the products through the Amana Ltd website. However, other factors have to be considered. Some intangible costs and benefits would be associated with each of the alternatives.

Comparison

Apart from the figures presented, having an own website can have other additional costs. The company will have to engage in negotiations with other companies that will ensure delivery of goods to the specific location the company needs them, and this can be costly if the company will be delivering a single or few items in a certain country. This is considering that the company sells souvenirs only, which means sending large quantities of goods every day, leading to lower transport costs per item lower would be impossible (Awe, 2009). There is already an established website and transport network on the Amazon website that can lead to lower transport costs as the website sells products from other suppliers.

The company will also incur costs in managing and marketing its website to find the website when they search for the goods. For the case of Amazon, individuals trust the website since it has clear policies for unsatisfied customers. They are likely to trust the products sold on the website compared to those that are sold by the individual website. The challenge is that other competitors may be offering lower prices and discourage customers from buying Amana products on the website.

For the case of setting up the company website, other costs such as the need to have customer care service to receive orders and respond to customer queries are needed. This is as compared to using the Amazon website, where there are already set up systems that can handle queries by the customers (Awe, 2009). Suppose the customers do not get the responses that they need. In that case, they may accuse the company of exploiting them, and this can damage Amana ltd reputation hence discouraging sales on the platform in the future.

The challenge with selling through Amazon is that the company may not have control over the supply chain and may not be aware when orders are delivered and when customers are facing delays. The customers receiving poor quality from Amazon may also lead to believe that the souvenirs on the website are of poor quality. A mistake by a competitor thus can adversely affect the sales for companies like Amana Ltd. In short, there are chances that customers prefer not to buy souvenir products from Amazon, and this would adversely affect the company sales. However, successful sales on the website can attract more customers to the website, and this can increase the company sales.

Summary for Part B

There is a lot of unknown information about online sales for the company. However, the data reveals that it will benefit from selling the company products through the company website. This is the best alternative considering the various unknown information that is presented in the current situation. While there are costs involved, the long-run benefits will be higher as more sales will be realised, and the company will continuously learn how to run the online business and grow the sales. It can use other sites such as social media to reach customers in various countries at a low cost. This can help boost the trust the customers have on the company website. As long as the company can control the quality of its products, it will be possible to make sales over time and achieve positive profits. Additionally, closing some of the company outlets will have reduced the rental cost, which will boost the company's net profits as long as the sales grow over time. The benefits of own website are more than using a third-party website such as Amazon, as long as the company creates trust among the customers.

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