



Analysis report and flexed cost

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INTRODUCTION

Accounting manager is that person within the organisation that have control of the cost management, budget, monitor the plan budget and the actual one, spendings within the company and main key to the business decision maker, as based on his findings and reports, the company can expand or budget cuts, showing the presenting of affordability.

My report will break down in two different reports. One requested by Amana LTD to provide an analysis of 2020, based on the figures given, determine favourable and unfavourable. The second part I will be helping Mr. Amana to decide either go and merchandise on Amazon platform or starting his own e-commerce store.

As the end of my reports, I will provide my understanding and a short summary of each of the reports.

COST ANALYSIS AND FLEXED COST

As an accountant manager of Amana LTD, the CEO has requested an monthly report of 2020, to determine the variances between the actual cost and the flexed cost (planned cost) during the pandemic and find out where the variances are unfavourable or favourable, reasons why it came back negative and how can be improved.

Items	Cost per unit	Original (£)	Flexed (£)	Actual (£)	Variance
Units		100.000	80.000	80.000	
Selling price	25	25	25	20	5 UF
Revenue		2.500.000	2.000.000	1.600.000	400.000 UF
Variable costs:					
Materials	2.5	250.000	200.000	280000	80.000 UF
Labour	4	400.000	320.000	440.000	120.000 UF
Overhead	1.5	150.000	120.000	120.000	0 No change
Contribution	17	1.700.000	1.360.000	760.000	600.000 UF
Fixed overheads:					
Warehouse rental		200.000	200.000	170.000	30.000 F
Insurance		100.000	100.000	100.000	0
Fulltime supervisor salary		50.000	50.000	35.000	15.000 F
Profit		1.350.000	1.010.000	455.000	555.000 UF

Figure 1 Made my student

Based on the findings above, the 2020 report of Amana LTD. Shows that the revenue, variable costs, and profit were unfavourable while some of the fixed cost, such as warehouse rental and the salary of a full-time supervisor were favourable.

Breaking down the negative costs, the revenue can come back unfavourable when revenues from a business venture fail to meet expectations. This could be due to a variance between the anticipated budget and the actual budget as well as a lower than anticipated return on investment. A decrease in income may manifest when the reported figures for a given year are inferior to those of the preceding year. It is imperative for businesses to invest time in researching the origins of any pronounced decline in revenue, as negative variance can be an extremely pressing issue and diverse factors:

❖ Economy

The market must be seen as a crucial element in any variations in revenue. Despite careful planning, the market can occasionally undergo rapid changes which may lead to a decrease or change in sales as customers become more inclined towards certain features and products. The success or failure of a project is largely beyond the company's capacity to influence and may often result in unexpected positive or negative outcomes.

❖ Inaccurate Forecasts

For most anticipated budgets, an estimation of income is required. Despite this, forecasting has the potential to generate erroneous results, potentially leading to significant errors. Calculating future cash flows using constant inflation rates is a straightforward process, though in reality, inflation does not always remain consistent. When attempting to anticipate the fluctuating market or the expense of supplies in the future, formulating an accurate forecast becomes even more challenging and income may be augmented deceitfully.

❖ Insufficient Supply

When resources are limited, individuals manifest a heightened desire for acquisition. Suppliers augmenting their prices result in businesses incurring unanticipated expenses. This leads to a decrease in profitability and net income. Shortages in supply can have a detrimental impact on businesses' profits, rather than having an immediate influence on sales.

❖ Modifying Corporate Strategies

Financial losses can sometimes be anticipated. Variations in commodities, site, or other elements can impact sales. Generally, there is a temporary decrease in sales when the market adjusts to an alteration. If the business formulates an effective strategy, they will be able to generate increased revenue with the new model.

Materials

The main reasons for material cost to return as an unfavourable variance are:

❖ Verification

The direct materials efficiency variance, also known as the direct materials quantity variance or direct materials usage variance, indicates the discrepancy between the amount of material utilized in a process and what was allocated for that job. The outcome, depicted as a financial figure, allows management to modify production or acquisitions in accordance with the goals the business desires to achieve. To ascertain a direct materials efficiency variance, one must employ the following formula: (actual quantity utilized multiplied by standard price) minus (standard quantity permissible multiplied by standard price).

❖ Initial Criteria

If an excess of materials is utilized for the task beyond what was necessary or budgeted, an unfavourable efficiency variance is generated. In contrast, a positive direct materials efficiency variance is achieved when less material is utilized than anticipated. An error in the accounting of materials may lead to a single or temporary deviation from ideal direct material efficiency. Notwithstanding, if the initial forecasted standard for materials was misjudged, it may be plausible to solve the issue expeditiously by amending the figures in accordance with prior material utilization when standards were satisfied.

❖ Inferior Materials

The use of inferior materials at the commencement of a manufacturing process to reduce expenditure can influence the direct material variance. The use of substandard materials may require a higher amount of the material in question, leading to an undesirable variance in direct materials efficiency.

❖ Employees & Resources

Unfavourable direct material efficiency variances can be attributed to pilferage, spoilage, and deterioration resulting from worker errors or inadequate training. Ineffective oversight and modified protocols can result in unfavourable discrepancies. Malfunction of equipment, disruptions or technical difficulties can result in undesirable deviations.

Labour

- ❖ The government has increased the national minimum wage.
- ❖ The utilization of unskilled or inadequately qualified personnel can lead to additional costs due to their inability to meet the necessary performance standards.

- ❖ A high rate of employee attrition is likely attributable to a toxic work atmosphere and inadequate management.
- ❖ The novel coronavirus pandemic has had a devastating impact, resulting in an alarming rise of infections, and necessitating the isolation of personnel.
- ❖ Employees who are not financially and mentally motivated will not remain steadfastly loyal to their workplace nor provide a high level of performance.
- ❖ The repercussions of the United Kingdom's withdrawal from the European Union, including foreign workers returning to their countries of origin.

Recommendation for CEO of Amana LTD:

My recommendations are not only strictly based on cost and how we can manage costs, are also about work ethics, quality control, Communication, team building.

- ✚ Everything starting with labour, with the employees.
 - The standard of hiring needs to be at the highest level, fully qualified people can bring quality and loyalty among workers and customers
 - Primes and bonuses and career development within the company can boost motivation for personally, financially, and mentally
 - Salary over minimum national wage will create staff loyalty and brand image for the company as the quitting rate will decrease and no cost will be running out for new started training
 - Communication and appreciations towards your employees create a healthy work environment.
- ✚ When comes to materials:
 - Having a back-up supply that offers same quality of materials as the main supplier at the same price, or similar quality and lower price
 - Local suppliers to avoid border fees and Brexit regulations
 - Good relationship with the suppliers to direct you to the right person in case of supply issue crisis.
 - Quality control
 - High quality for high price, or low quality for low expectations and prices
 - ❖ Employees who are not financially and mentally motivated will not remain steadfastly loyal to their workplace nor provide a high level of performance.
 - ❖ The repercussions of the United Kingdom's withdrawal from the European Union, including foreign workers returning to their countries of origin.

E-COMMERCE VS. AMAZON

Based on Mr. Amana's decision to move online, I have been required to elaborate an analysis report on cost to influence his direction to his own e-commerce shop or selling on Amazon. Based on my research at the first conclusions, the Online Souvenir Website, costs were shown as:

- ⇒ £ 150.000 Setting Up Delivery Network
- ⇒ £ 50.000 Website Upgrading Cost for a larger demand
- ⇒ £ 35.000/year IT Programmer Salary

Total cost: £ 235.000

➤ Guaranteed Sale: 100.000 units/ annually

But analysing the market and do deeper research the statistics of costs based on size of the e-commerce shop are:

	SMALL-MEDIU	LARGE SCALE	LARGE BESPOKE
DESIGN	£ 2.500	£ 4.500	£10.000
ONLINE STORE ANNUAL COST	£ 250- 1000		
HOSTING	£ 250-£ 350	£750/year	£1.500/year
DOMAINE	£15-£500 Varies a lot depending on availability	£15-£500 Varies a lot depending on availability	£15-£500 Varies a lot depending on availability
SSL CERTIFICATE	£ 50/year	£ 50/year	£ 50/year
MAINTANANCE	£ 1000+/year	£4.500+/year	£ 10.000+/year
COST IN 1 ST YEAR	£ 4.400	£8.500	£ 20.500
ONGOING ANNUAL COST	£ 2.500	£5.500	£ 15.000
	The lowest Total: £10.965 The highest Total: £12.300	The lowest Total: £23.815 The highest Total: £24.300	The lowest Total: £57.065 The highest Total: £57.565

	SMALL-MEDIU	LARGE SCALE	LARGE BESPOKE
The lowest Total Cost	£ 245. 965	£ 258.815	£ 292.065
The highest Total Cost	£ 247. 300	£ 259.300	£ 292.565

📊 Looking the at the figures above, the guaranteed sale units are 100.00/ annually, which we will estimate that Mr. Amana will sell:

PRODUCT	ESTIMATE UNITS SOLD	ESTIMATE PRICE	TOTAL
FRIDGE MAGNETS	25.000	£ 2.99	£ 74.750
MUGS	25.000	£ 4.99	£124.750
KEYRINGS	25.000	£ 2.19	£ 54.750
MUG COASTERS	25.000	£5.99	£149.750
			TOTAL £ 404.000

📊 By estimating the total guaranteed sales of 100.000 units and calculating the total sale we must now take away or the relevant costs which will come down to:

	SMALL-MEDIU	LARGE SCALE	LARGE BESPOKE
The lowest profit	£ 156.700	£ 144.700	£ 111. 435
The highest profit	£ 158.035	£ 145. 185	£ 111.935

ADVANTAGES OF E-COMMERCE

1. Expanded Audience

E-commerce boosts global customer reach. Customers can buy remotely and anytime, especially with mobile shopping's growing popularity.

2. Utilizing Tracking and Analytics to Gain Insight into Customers

Utilizing SEO, PPC ads or postcards to drive visitors to an eCommerce site can track website traffic and customer experience, providing insights into keywords, user experience, marketing message, pricing strategy etc. Customers can buy remotely and anytime, especially as more people shop with mobile devices.

3. Increased Prospects for Promoting.

Merchants are limited in their ability to provide customers with information regarding a product in a physical retail environment. Conversely, eCommerce sites provide the capacity to incorporate additional data, such as demonstration videos, reviews and customer feedback, which can assist in boosting conversions.

DISADVANTAGES OF ECOMMERCE

1. Lack of Human Interaction

Shoppers enjoy personalized service in physical stores. Premium item sellers must give a personal touch, as customers want not only the goods but also an enjoyable buying experience.

2. Absence of Tactile Stimulation

Quality no matter, consumers can't physically interact with a product. Crafting a multi-sensory brand experience on a two-dimensional screen is challenging.

3. Price and Product Differentiation

Through the convenience of online shopping, consumers can evaluate a variety of products and locate the most cost-effective option. This necessitates a competitive atmosphere among merchants in terms of pricing, leading to reduced profitability.

4. Necessity of Internet Connectivity

Customers can only purchase from you online. Due to the features/functionalities of eCommerce platforms requiring high-speed for the best user experience, slow Internet access runs the risk of excluding visitors.

5. Credit Card Fraud

Fraudulent credit card use is a growing worry for e-commerce businesses. Losses in revenue, penalties, and reputation damage may result from chargebacks. Varying vulnerability to fraud/failure should be considered when deciding e-commerce suitability for a business.

6. Cybersecurity Concerns

An increasing number of businesses and organizations have become victims of malicious hackers, who have accessed customer information stored in their databases. This could not only have legal and financial implications, but also reduce the confidence of customers in the company.

SELLING ON AMAZON

✚ Selling on amazon the cost were shown as:

- ⇒ Amazon Fulfilment fees: £ 50.000
- ⇒ Selling plan for professional £25/month (£300/year)
- ⇒ Referral unit fee: £ 0.25/unit (£ 65.000x £0.25 = £16.250)

Guaranteed Sale Units: 65000

Total Costs: £ 66.550

Estimating that Mr. Amana will sell guaranteed 65000 units on Amazon as follows:

PRODUCT	ESTIMATE UNITS SOLD	ESTIMATE PRICE	TOTAL
FRIDGE MAGNETS	15.000	£ 2.99	£ 44.850
MUGS	15.000	£ 4.99	£ 74.850
KEYRINGS	15.000	£ 2.19	£ 32.850
MUG COASTERS	15.000	£5.99	£ 89.850
T-SHIRT	5.000	£9.99	£ 49.950
			TOTAL £ 292.350 -
			£ 66.550
Estimated profit is:			£ 225.800

ADVANTAGES OF SELLING ON AMAZON

1. Attain widespread exposure.

Throughout its tenure, Amazon has endeavoured to establish and maintain consumer trust, thereby cultivating a steadfast customer base. Selling on Amazon offers an immediate chance to introduce your business to a vast number of active customers who may not have encountered it without this platform. It is noteworthy that Amazon's reputation for successful deliveries and successful returns has been so highly regarded that many consumers prefer to shop through the platform as opposed to other unfamiliar ecommerce websites.

2. Delivery of freight is convenient.

Fulfilment by Amazon (FBA), a paid service offered by Amazon, helps its sellers handle shipments and handle any unforeseen delivery problems. Participants in this program have the option to ship their goods to Amazon's fulfilment centre, where they will be stored alongside other products in the same warehouse. The remaining tasks are then carried out on your behalf by Amazon. After receiving an order, Amazon helps with the packaging and delivery of the product to the customer. They oversee handling requests for returns and replacements.

3. Easy set up

Start your ecommerce journey on Amazon. No need to worry about website design, SEO, or other business setup. Test the platform & sell to gauge revenue before building ecommerce business.

Disadvantages:

⇓ Selling costs

Amazon offers potential for growth, yet still requires a cut. Pay Amazon a referral fee for each sale. Referral fee 5-15%, varies by product. Amazon hikes = higher cost. Raise prices or reduce profit?

⇓ Ruthless rivalry

Finbold research indicate 3,700 new Amazon sellers daily in 2021. Covid-19 driving online businesses up, yearly outgrowth expected. Unique products avoid price competition. Lower prices until reviews prove superiority. Amazon may compete, selling similar products & highlighting them in search results.

⇓ Customer loyalty limited and lack of stock control.

People will remember Amazon, not you. People only learn what you tell them about your business. Amazon forbids promoting business & directing customers

to website. Customers must remain loyal for business survival, yet it's hard to nurture that relationship if they are happy with your product.

- ✚ Based on the report shown above with costs breakdown and estimative sales my recommendation for Mr. Amana is to move towards decision of selling on Amazon for the first year, considering all the cost for an e-commerce store where the profit on Amazon is higher compared to e-commerce website and the business can have more exposure, for future customers.

CONCLUSION

As the end of the report of Amana LTD, the figures shown revenue, variable and profit unfavourable, having at the base cheap materials leading to poor quality, unskilled workers, covid-19, changes in economics while fixed overhead was no change or favourable.

On the other side, based on the fees and costs an e-commerce store brings along plus delivery costs, I advised MR. Amana to move to Amazon platform as more exposure is available, more easy customers, delivery supported by Amazon.

My recommendations are to pay attention to the quality of the materials, create employee loyalty and motivate financially and mentally as they are the key of performance of productivity.

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