

Management Accounting
Assignment 2

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Table of Contents

Introduction.....	3
Part A	3
A) Sales volume and sales price variance	3
B) Material price planning and operational variance	5
C) Merits and demerits of apply the variance	7
Part B	10
A) Impact of decision for FamaQ as a competitive advantages for XLG	10
B) Impact of increasing demand for chemical X and Y with respect to 45%.....	10
C) Cost of producing FamaQ and impact of reduced time	11
Conclusion	13
References.....	14

Introduction

Management accounting is one of the important branches of the finance for any business and it is essential to use in the process of identification of suitable data so that the company can make viable decisions. The main purpose of this report is to put the focus on the analysis of management accounting practices and making viable decisions. In context to this, the report also examines the sales volume and variance of sales price according to the given scenario. With this, the material price is also demonstrated in planning and operational variance. On the other hand, the report also includes the decision-making practices for the XLG business as it is about to import the FamaQ along with the impact of lockdown. Moreover, the decision making is also addressed concerning a given case scenario for producing FamaQ in- house or importing from Brazil.

Part A

A) Sales volume and sales price variance

The numerical disparity between current and expected revenue is a market variation. This is used for the time-long study of shifts in revenue rates. Corporate planning will contribute to a revenue variance. For starters, management may try to hold rates down so that future rivals are not able to join the market (Arora, 2012). If so, because this approach does not represent the budget, a substantial revenue difference can be found. A significant variation in selling price is viewed as beneficial as the quality you get for each product is higher than you anticipated. A detrimental market shift is, on the other side, adverse/unfavorable.

Particulars	Chemical X (£)	Chemical Y (£)
The budgeted sales XLG	595	595
Standard selling price	35 (per unit)	30 (per unit)

Actual sales	850	750
Actual selling price	45	37
Standard Margin over selling	25	20

The sales price variance is really important for the manufacturing business to make an effective and reliable decision as per the suitability. A significant demand difference is called favorable, as it is beneficial that a better demand is earned than you expected on each item. A downward demand fluctuation, though, is counterproductive. The formula for sales price variance is as follow

Sales price variance = (Actual price – Budgeted price) × Actual volume (Atkinson, et al., 2011)

For chemical X = $850 \times (45 - 35) = 8500$

For chemical Y = $750 \times (37 - 30) = 5250$

From the calculation of sales price variance, it can be computed that there is a positive sales variance. It means that the business is selling its products at a higher price than the occurred cost for the products. The above-computed variance is favorable for the XLG business to increase the profitability and sales volume for the upcoming financial year (Battacharyya, 2011). On the other hand, positive sales variance is calculated for both the chemicals.

Sales volume contribution variance

The variance of the volume of sales is the disparity between real and forecasted selling units in terms of income or earnings. That is to suggest, whether more or less than the budget was allocated. An unfavorable variance means that the total amount of units produced is outside the target. The estimated amount of units generated is focused on sales and marketing managers' projections of how potential revenues in different markets would affect the company's

commodity market share, structures, selling points, planned marketing operations, delivery networks, and revenue (Birchall, 2014). When the selling price of the commodity is less than the expected value, this can boost demand such that the difference in sales volumes is beneficial.

Formula = (Actual unit sold – Budgeted unit sold) × Budgeted price per unit (Chandra, 2019)

For chemical X = $(850 - 595) \times 25 = \text{£}6375$

For chemical Y = $(750 - 595) \times 20 = \text{£}3100$

From the above calculation of sales volume variance, it can be interpreted that the variance is favorable for both the chemicals as X and Y for the XLG business. In context to this, it can be interpreted that the positive sales volume variance contribution is good for the XLG business in terms of increasing the number of sales volume in the upcoming year. On the other hand, the large difference between the actual and budgeted sales is also valuable to gain increased financial benefits.

B) Material price planning and operational variance

Material price planning and operational variance are also the key variance for the business to assess the material price. Regarding supplies and function, preparation and organizational variations may be contrasted with real (operative) outcomes by contrasting the initial and updated budgets (preparation) (Chiapello and Gilbert, 2019). It may help to evaluate management's productivity in assessing and selling the content at low business costs.

Chemicals	Chemical X	Chemical Y
Original budgeted for FamaQ per unit	£2.50	£2.50
per unit price increase	£4.50	£4.50

Paid price per unit	£3.70	£3.70
Actual sales volume	850	750
Unit of FamaQ for each unit	1	1

Material price planning variance

This is important to assess and input about how effective managers in XLG are in predicting potential costs. The formula for material price planning is as below

$$= (\text{Standard price} - \text{Budgeted price}) \times \text{Actual sales} \times \text{FamaQ units (Edmonds, et al., 2013)}$$

$$\text{For chemical X} = (2.50 - 4.50) \times 850 \times 1$$

$$= -£1600(A)$$

$$\text{For chemical Y, } (2.50 - 4.50) \times 750 = (1500) \text{ adverse}$$

From the above computation of material price, planning variance helps the manager for their survival. Concerning the result, it can also be stated that the unfavorable is not significant to decide it. About this, it can also be stated that negative planning can influence.

The variance of material price operational:

This is to determine the buying department's productivity and capacity to monitor the commodity gap and to increase the consumption rate of the content.

Formula = Actual price paid – Revised standard price * Actual sales * FamaQ units (Eldenburg, et al., 2019).

$$\text{For chemical X} = (3.70 - 4.50) \times 850 \times 1 = -£680$$

$$\text{For chemical Y} = (3.70 - 4.50) \times 750 \times 1 = -£600$$

As per the above calculation, it can be interpreted that the material price operational variance is also positive or favorable because the chemical has paid less price for the material.

C) Merits and demerits of applying the variance

To recognize the differences in inventory, labor, and overhead between budgeting and real budgeting, the organization is critical. It also reveals that the financial output of the organization varies from the expectations laid out by the business in its budget. This helps management to monitor the activities of the business. The study of the adverse variation in the market is not helpful as it affects output and goals line (McKinsey, 2018). Application of variance for the XLG business might drive both the impact as favorable and unfavorable because of its nature and suitability with the business.

Merits of the variance application

Variance application is important for the XLG business to measure the gap between the actual and budgeted performance of the business. This includes a forum and resources to assess and delegate responsibilities to the accountable and competent persons of each organization and gives the greatest advantages and rewards of the study. Of one, the manager of output is responsible for increasing resource quality and consumption. The duty of the production manager should be the discrepancy between resources and output. It is a crucial instrument to test the company's costs in service. XLG may be used to determine whether the expenses incurred by companies and agencies are right or not in compliance with established requirements (Mehta, 2016). The variances review will be provided via XLG. This will help to assess the success of the managers in the organization. When the result is significant, indicating that real expenditures are greater than expected, the executives are not effective and capable to monitor the company's revenues and expenses.

The variance can also help to calculate the corporation's profits and enable the successful selling of goods on the market by the firm. The manager's profits are better than forecast reports, and the

managers' plans are going well. XLG has a decent level of revenue relative to the expected selling level. This means management is very effective and successful in executing plans and activities to improve revenues (Scott, 2019). This may be helpful for strategic advantage and efficiency enhancement. Managers usually use their system to save, whether they do well or not, in their policies. If they cannot meet the priorities and objectives, administrators create new approaches and proactively adjust tactics to accomplish the expectations and objectives. This implies that it is an important method for increasing the productivity and performance of the management of businesses.

Therefore, the study of variances tends to define the area in which management has to concentrate further on operational efficiency. The management should take better consideration of the critical tasks and poor production areas into account. Through enhancing efficiency through removing shortcomings and issues in the process, it will lead directly to the growth of the business.

Demerits of the variance application

For such gain, there are some drawbacks to the study of variance that may impact the organizations' usage and significance. The accounting staff of the organization usually uses this strategy when contrasting the current year's results with the year's prediction or last year. It may be helpful for management in strategic plans, but for management, this year is not helpful. To order to establish and analyze the impact of transition, management needs knowledge about the scenario and business developments (Singh, 2016). This cannot, however, include quicker knowledge following the management criteria which can impact the organizations' functionality and effectiveness. If used for small companies, this is very costly. Detailed analysis of the volatility of could market operation can be quite expensive and pointless. For small businesses, it

can influence the usage of variance analysis. Around the same period, the expectations are fixed costs and wages, and this norm can affect and restrict to some degree the operational improvements. The baseline does not adjust when the climate evolves, so this may impact the consistency of the cost-sales variation measurement.

When the variance is applied in the context of accounting practices without any knowledge then it may also affect the decision –making strategy for the business. It will contribute to gaps in recording adjustments and output improvements. Reports are necessary to keep customers informed of the real and estimated cost and output differentials such that the productivity in the operation of the business is calculated and understood. When the fiscal duration rises and the interventions vary over time, the projections and statistics become redundant and unrelated to results.

Part B**A) Impact of decision for FamaQ as a competitive advantage for XLG**

XLG used FamaQ products in conjunction with Chemicals X and Y in the UK. This offers XLG important benefits in competition. The business buys products from FamaQ and has a broad range of dangers, such as manufacturing, transportation, currency, materials, price, and other hazards. Such specific market threats will impact corporate prices and production. XLG eliminates production, importation, trade, and investment prices by manufacturing commodities. When the organization develops FamaQ, it may be more effective and competitive than importing it from Brazil. XLG is acquired strategic advantages and, with its high-quality goods, will boost chemical tastes and brand identities in the UK market (Williamson, 2016). This will contribute to beneficial outcomes in terms of improved customer satisfaction and revenue for the product. In context to this, the COVID- 19 has also affected the manufacturing process because of lacking the reliable and productive manufacturing process.

B) Impact of increasing demand for chemical X and Y concerning 45%

The demand for chemicals X and Y has risen at 45 percent in the industry based on consumer research and this will lead to company development and income growth. XLG will underline that net revenue and growth, which is made possible by the availability of sources and a large amount of commodity output (Zahid and Vagif, 2020), is optimized. Development costs have a strong impact on the company's decision on sales quantity. To manufacture large volumes of chemicals that can effectively satisfy the consumer demands the organization needs to manage the inventory efficiently (Weetman, 2019). On the other hand, it can also be stated that the higher the demand will result in higher profitability for the business and it will directly result in valuable competitive advantages. With this, Increases in productivity and demand in output will result in

higher chances that might affect a company's interests. It will easily fulfill business expectations and reap benefits. As a consequence of increased FamaQ competition and the patent, competitive forces in XLG's services will boost performance. Throughout this case, instead of imports, FamaQ goods should be manufactured to meet consumer demand, because imports of materials into Brazil's markets that result in materials being delayed and in inventories, generating the number of products required for market demand. In context to this, increasing the demand by 45% will also attract the new growth opportunity and it will also be helpful to make better decisions by the business.

C) Cost of producing FamaQ and impact of reduced time

The market difference between the costs of the FamaQ manufactured and the FamaQ purchased may also be a significant factor to assess if the material would be generated in a business or exported by distributors. At £ 4.50, the normal cost for FamaQ content rises when manufactured by the manufacturers, whereas the rate for FamaQ production is £3. It ensures that the production prices for XLG items in the UK market are smaller than those for commodities purchased from Brazilian manufacturers (Battacharyya, 2011). The reduced cost of chemical manufacturing will also be significant to gain higher profits from the business. On the other hand, the delivery time reduction is also valuable to deliver the product on time so it is also a cost-benefit for XLG business. The production period is a reasonable indicator of the business' success and profitability. Products will be shortened by 15 days for customers. Consumers will obtain consumer products in less time following orders. Things should be provided in a timely fashion if there is room sufficient to process goods in a time-consuming way that allows chemicals simpler for the consumer base (Chiapello and Gilbert, 2019). This has a major effect on the notion of chemicals viewed by consumers which will enable XLG to become an industry leader

in a highly competitive setting. In this way, XLG may be introduced rather than exported from Brazil in the UK sector. This appropriate approach decreases the reliability hazard imported by Brazilian dealers, logistics networks, regulatory supervision, currency, and other risks. It strengthens the capacity of the organization to produce ingredients to satisfy the need for chemical goods on the market every time.

Conclusion

According to the above-mentioned evaluation, variance analysis was considered to be an essential technique for assessing market productivity and optimizing results. Analysis of variation will, therefore, boost management's skill and flexibility in the control of their activities and increase efficiently the success of companies and organizations. It can also be stated that it may be relevant and detrimental for the accounting company to use the variance study. This article further explores the principle of the production and distribution of products to gain a competitive edge.

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