



Student no : 2030081

Student name : Luiza Georgiana Lisac

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Table of Contents

Introduction:	2
Part A:	3
(i) Variance report:	3
(ii) Performance analysis:	5
(iii) Recommendations:	11
Part B:	11
Conclusion:	16
References:	17

Introduction:

The process of budgeting can be termed as the method of organising, analysing and regulating the future expenses of a company. Budget can be described as the numerical representation of the future plans of an organisation to allocate and use the financial resource across a certain period. The preparation of budget can help a company to assess the future risks of financial resources. The employment of budgetary control can improve the financial performance of an organisation. The budgetary control compares the financial results with original estimated budget to identify discrepancies which allows the management to take remedial decisions for future commitments.

Part A:**(i) Variance report:**

Amana Ltd has prepared the original budget by assuming a single or fixed level of activity. The budget was prepared for the estimated level of production which is 100,000 units and no alterations are permitted for any future change in the sales figure or productivity of the company. If Amana Ltd was able to produce and sale the estimated number of units, there would be no necessity to adjust the original budget. However, the outbreak of Corona virus has affected the business of Amana Ltd and the company was able to produce 80,000 units instead of the estimated production units. The original budget and actual budgets are presented below:

Variable costs:	Per unit (£)	Total (£)
Materials	2.5	250,000
Labour	4	400,000
Overhead	1.5	150,000
Contribution	17	1,700,000

	Original budget (£)	Actual (£)
Units	100,000	80,000
Selling price	25	20
Revenue	2,500,000	1,600,000
Variable costs:		
Materials	250,000	280,000
Labour	400,000	440,000
Overhead	150,000	120,000
Contribution	1,700,000	760,000
Fixed overheads:		
Warehouse rental	200,000	170,000
Insurance	100,000	100,000
Fulltime warehouse supervisor salary	50,000	35,000
Total Fixed cost	350,000	305,000
Income	1,350,000	455,000

However, it will be an unfair comparison to understand the variance as the number of units produced are different. The actual units produced are lesser than the estimated production unit. Therefore, automatically the production cost will be decreased. It will be a more realistic approach to compare the actual budget with a revised original budget by considering the actual level of activity. In other words, comparing the actual budget with a flexed budget will be a more justified approach (Alexander and Irina, 2022).

A flexed budget is a revised fixed or original budget prepared at the end of a financial period. A flexed budget is useful to recognise the difference between fixed and variable costs related to the fluctuation of output or other variables. The flexible budget is designed to change according to such fluctuation in order to obtain better budgetary control (Beuren et al, 2019). The variable cost and revenue are flexed in the flexed budget. The fixed cost remains the same as original budget. The preparation of flexed budget is given below:

Variable costs:	Per unit (£)	Total unit 80,000 (£)
Materials	2.5	200,000
Labour	4	320,000
Overhead	1.5	120,000
Contribution	17	1,360,000

The fixe costs remain unchanged in the flexed budget. Therefore,

	Flexed budget (£)
Units	80,000
Selling price	25
Revenue	2,000,000
Variable costs:	
Materials	200,000
Labour	320,000

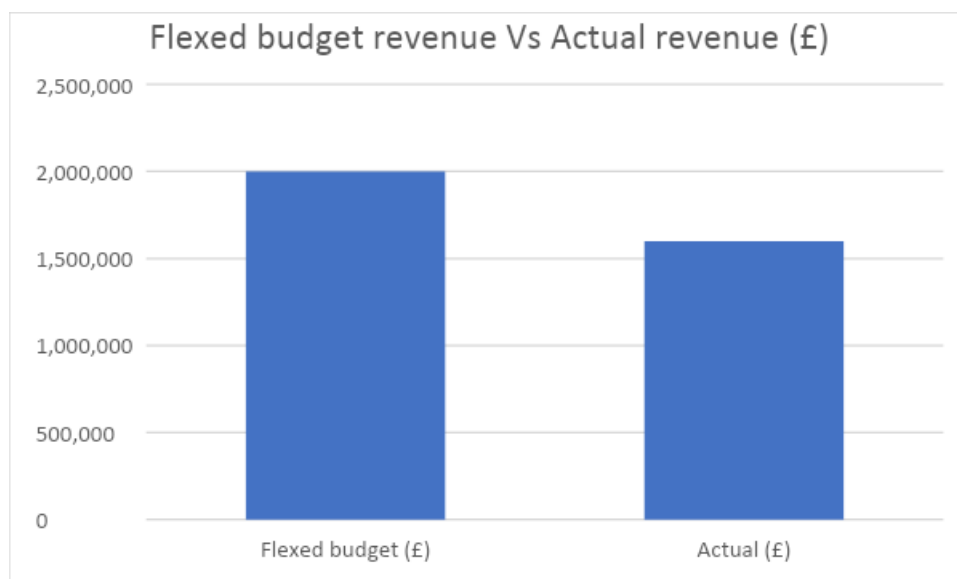
Overhead	120,000
Contribution	1,360,000
Fixed overheads:	
Warehouse rental	200,000
Insurance	100,000
Fulltime warehouse supervisor salary	50,000
Total Fixed cost	350,000
Income	1,010,000

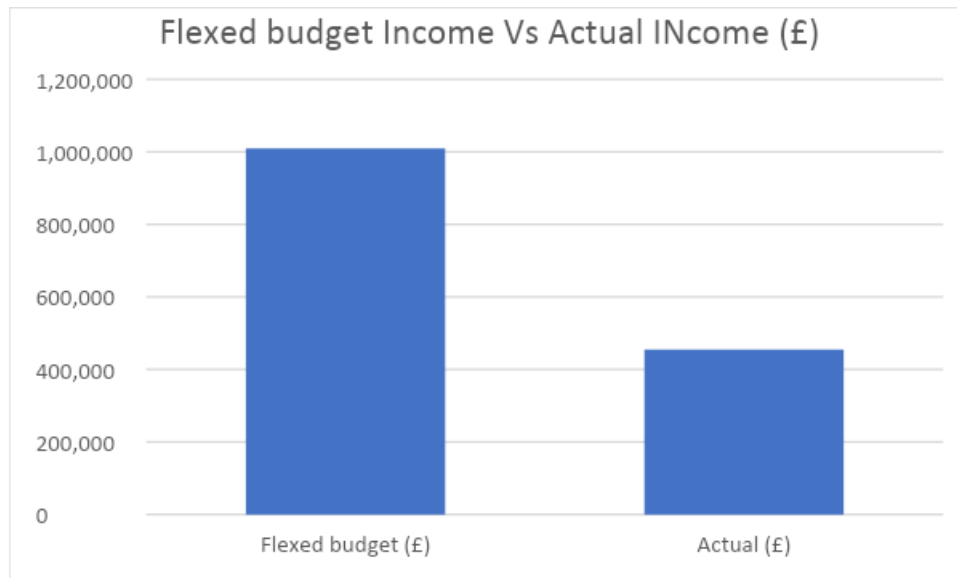
Variance report: Variance can be defined as the difference between the budgeted amount and the actual expense. In general, a positive result of this expense differences indicates surplus or favourable performance. On the other hand, a negative result of this difference indicates deficit or adverse result. However, in terms of revenue generation a positive result shows less income therefore an adverse result (Maheshwari et al, 2021).

	Original budget (£)	Flexed budget (£)	Actual (£)	Variance (£)	
Units	100,000	80,000	80,000		
Selling price	25	25	20		
Revenue	2,500,000	2,000,000	1,600,000	400,000	Adverse
Variable costs:					
Materials	250,000	200,000	280,000	-80,000	Adverse
Labour	400,000	320,000	440,000	-120,000	Adverse
Overhead	150,000	120,000	120,000	0	Favourable
Contribution	1,700,000	1,360,000	760,000	600,000	Adverse
Fixed overheads:					
Warehouse rental	200,000	200,000	170,000	30,000	Favourable
Insurance	100,000	100,000	100,000	0	Favourable
Fulltime warehouse supervisor salary	50,000	50,000	35,000	15,000	Favourable
Total Fixed cost	350,000	350,000	305,000	45,000	Favourable
Income	1,350,000	1,010,000	455,000	555,000	Adverse

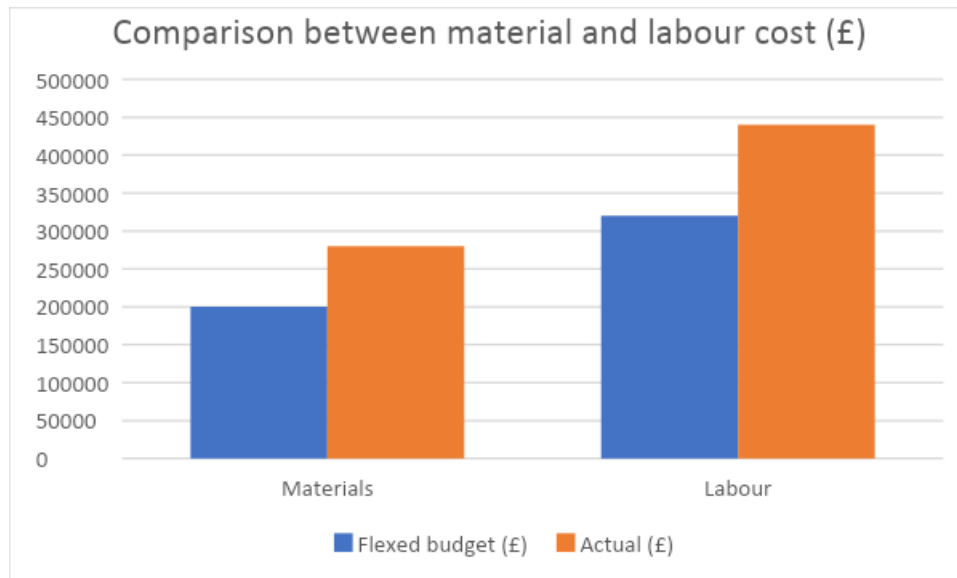
(ii) Performance analysis:

The actual budget expense of Amana Ltd is showing that the company has decreased the price and also, they did not able to reach the targeted selling unit. Therefore, less revenue was generated through the sales. It is obvious that due to the outbreak of pandemic people was less interested to buy the items like souvenir (Jha and Pradhan, 2020). Amana Ltd has reduced the selling price to provide cost benefit to the buyers and also motivate the buyers to buy the product. In this way the company was trying to reach the sales target as much as possible.





In terms of material and labour cost, Amana Ltd has performed below the budgeted amount. However, this is clearly an effect of pandemic. The variable costs can change with the change of socioeconomic condition or with the change of related environmental factor. The social restrictions during pandemic have affected the supply chain and the supply of raw material was decreased. Naturally, price of the raw materials was increased. Similarly, the supply of skilled labours was also decreased due to the fear of contamination and restriction of free travel. Along with this the safety protocol of the factory labours was increased (Wang et al, 2021). These factors together increased the labour cost.



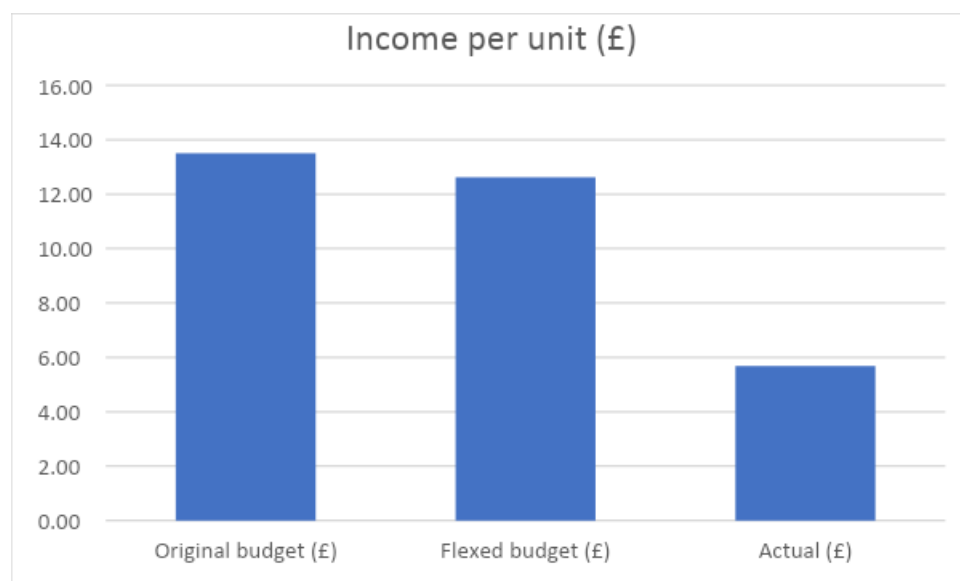
Overhead costs can be referred as the ongoing expenses or the operating expenses of a business. Overhead costs are not directly related to the production of a product however, they are necessary expenses which supports the production (Charles et al, 2020). The overhead costs remain unchanged for the flexed and actual budget. Therefore, they are favourable performance as the company kept the expenses within estimated limit.

In flexed budget of Amana Ltd according to the product selling price, per unit product was contributing £17 to cover the fixed cost of production. On the other hand, in actual budget, per unit product is contributing only £9.50.

	Actual (£)
Variable costs:	
Materials	3.50
Labour	5.50
Overhead	1.50
Contribution	9.50

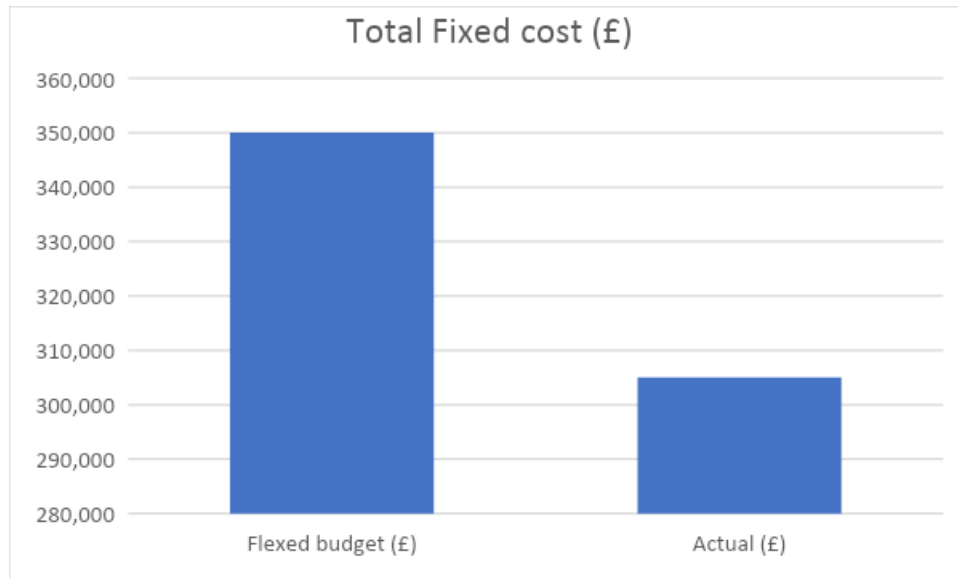
The reduction of price has significantly decreased the incoming cash flow from selling a unit product.

	Original budget (£)	Flexed budget (£)	Actual (£)
Units	100,000	80,000	80,000
Selling price	25	25	20
Variable costs:			
Materials	2.50	2.50	3.50
Labour	4.00	4.00	5.50
Overhead	1.50	1.50	1.50
Contribution	17.00	17.00	9.50
Fixed overheads:			
Warehouse rental	2.00	2.50	2.13
Insurance	1.00	1.25	1.25
Fulltime warehouse supervisor salary	0.50	0.63	0.44
Total fixed cost	3.50	4.38	3.81
Income per unit	13.50	12.63	5.69



According to the flexed budget of Amana Ltd, the company should acquire a profit percentage of 50.5%. Instead of that, in actual budget, the profit percentage has reduced to 28.44%. Clearly, it is an adverse performance of the company though, the performance analysis should also consider the environmental situation during the Covid-19. Amana Ltd has also spend less for the fixed production cost which has helped the company to attain

better result. According to the flexed budget the company was suppose to spend £350,000 to cover the fixed production cost. Instead of that the company has spent £305,000 to cover the fixed expenses.



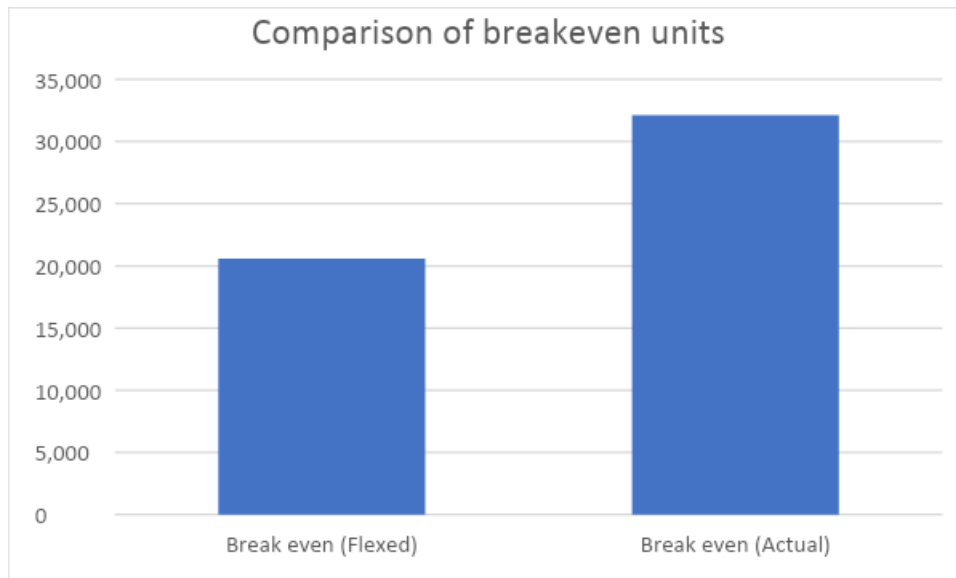
According to the flexed budget, the breakeven unit is:

$$\text{Breakeven unit} = \frac{\text{Fixed cost}}{\text{Contribution per unit}} = \frac{350,000}{17} = 20,588 \text{ Units.}$$

According to the actual budget, the breakeven unit is:

$$\text{Breakeven unit} = \frac{\text{Fixed cost}}{\text{Contribution per unit}} = \frac{305,000}{9.50} = 32,105 \text{ Units.}$$

Therefore, according to actual budget, Amana Ltd has to sale more products to reach the no profit no loss situation as compared to the flexed budget.



The margin of safety according to the flexed budget after selling 80,000 units is:

$$\text{Margin of safety} = \frac{\text{Total units sold} - \text{breakeven qty}}{\text{Total units sold}} \times 100$$

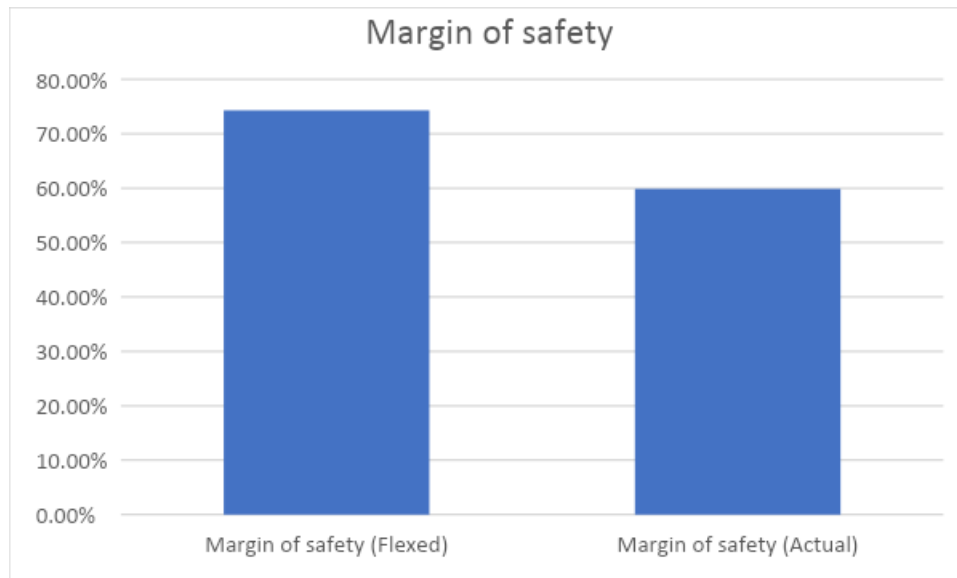
$$= \frac{80,000 - 20,588}{80,000} \times 100 = 74.26\%$$

The margin of safety according to the actual budget after selling 80,000 units is:

$$\text{Margin of safety} = \frac{\text{Total units sold} - \text{breakeven qty}}{\text{Total units sold}} \times 100$$

$$= \frac{80,000 - 32,105}{80,000} \times 100 = 59.87\%$$

Therefore, Amana Ltd has less margin of safety according to the actual budget as comparison to the flexed budget.



The summary of financial performance of Amana Ltd that was obtained by comparing the flexed budget with the actual budget is showing that the company has performed below the estimated budget due to the outbreak of Covid-19 pandemic during the financial year 2020-2021.

(iii) Recommendations:

- During the pandemic the cost of raw material and labour was increased. The increased cost has affected the profit percentage of Amana Ltd. In this circumstance, diversification in budgetary expenses can be helpful for the company (Jimenez and Afonso, 2022). Amana limited can diversify a portion of revenue to the cash reserves which will help them to cover sudden expenses without increasing liabilities. A fixed budget doesn't permit any flexibility to the budgetary control. The cash reserve can provide the financial flexibility to the company (Zhang et al, 2020). Amana Ltd could use the cash reserve to buy machineries instead of hiring more workers. It would be more cost effective. Amana Ltd could also use the cash reserve to place order for bulk purchase of raw materials. In this way the company could be able to avail better

discounts and negotiate the payment terms by carefully considering the cash flow in the business.

- Amana Ltd could use the ecommerce platforms which provides seller accommodation such as Amazon, Walmart or Best Buy. The freedom of movement was restricted during the pandemic lockdowns however, the home delivery services were exempted from the restrictions. Therefore, by availing the ecommerce platforms Amana Ltd could be able to extend its geographical reach and the total number of customers at a time with a nominal price. It could help the company to increase the sales target and achieve a better profit margin (Aldaas, 2021).

Part B:

The ecommerce platforms have experienced a meteoric growth during and after the pandemic period. The social restrictions and fear of contamination has removed the acceptance barriers of the society and improved the popularity of ecommerce selling platforms (Plácido et al, 2021). Even after the removal of lockdown restrictions, the trend is equally strong and new users are joining every day to buy or sell different products. The ecommerce platforms which are accommodating the retail sellers to sale online are behaving like a virtual market place (Tashanova et al, 2020). The sellers are selling through the platforms are facing strong competition as all other competitors with substitute products are present in that market. The sellers also have to abide by the rules of the market therefore they have less control over the pricing, marketing or return strategy (Grozdeva, 2020). However, the vast geographical reach and establish delivery services of the ecommerce platforms are the main reason behind the popularity of the ecommerce platforms such as Amazon.

This study is going to consider the actual budget to assess the future commitments of Amana Ltd. The actual budget is more appropriate according to the present market condition. Therefore, this study is going to use the actual budget expenses to project the feasibility of future commitments. The market research is showing that by developing separate website, Amana Ltd can achieve a sell target of 100,000 units and by selling on Amazon, Amana Ltd can reach a sell target of 65,000. Therefore, the variable costs will be according to the unit produced.

	Actual budget per unit cost (£)	Total Variable cost for Personal website (100,000 Units) (£)	Total variable cost to Sell on Amazon (65,000 units) (£)
Variable costs:			
Materials	3.50	350,000	227,500
Labour	5.50	550,000	357,500
Overhead	1.50	150,000	97,500
Contribution	9.50	950,000	617,500

Budget according to the guaranteed selling unit:

	Actual (£)	Personal website (£)	Sell on Amazon (£)
Units	80,000	100,000	65,000
Selling price	20	20	20
Revenue	1,600,000	2,000,000	1,300,000
Variable costs:			
Materials	280,000	350,000	227,500
Labour	440,000	550,000	357,500
Overhead	120,000	150,000	97,500
Contribution	760,000	950,000	617,500
Fixed overheads:			
Warehouse rental	170,000	170,000	170,000
Insurance	100,000	100,000	100,000
Fulltime warehouse supervisor salary	35,000	35,000	35,000
Delivery network	0	150,000	0
Website upgrade	0	50,000	0
Fulltime IT programmer salary	0	35,000	0

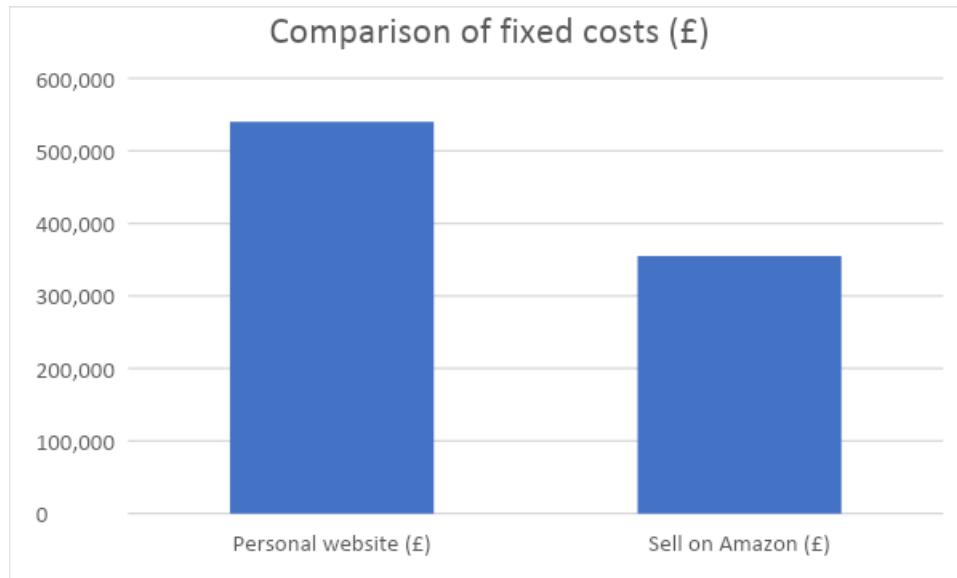
Amazon fulfilment fee	0	0	50,000
Total Fixed cost	305,000	540,000	355,000
Income	455,000	410,000	262,500

At this point of comparison, it is showing that selling through personal would be profitable for Amana Ltd. However, to compare the performance of Amana Ltd between selling through personal website and selling through Amazon, the number of units should be similar. Therefore, the revised budget is presented below to understand the variance:

	Personal website (£)	Sell on Amazon (£)	Variance (£)	
Units	100,000	100,000		
Selling price	20	20		
Revenue	2,000,000	2,000,000	0	Favourable
Variable costs:				
Materials	350,000	350,000	0	Favourable
Labour	550,000	550,000	0	Favourable
Overhead	150,000	150,000	0	Favourable
Contribution	950,000	950,000	0	Favourable
Fixed overheads:				
Warehouse rental	170,000	170,000	0	Favourable
Insurance	100,000	100,000	0	Favourable
Fulltime warehouse supervisor salary	35,000	35,000	0	Favourable
Delivery network	150,000	0	150,000	Favourable
Website upgrade	50,000	0	50,000	Favourable
Fulltime IT programmer salary	35,000	0	35,000	Favourable
Amazon fulfilment fee	0	50,000	-50,000	Adverse
Total Fixed cost	540,000	355,000	185,000	Favourable
Income	410,000	595,000	-185,000	Favourable

The variance report after revising the budget is showing that selling through Amazon will be more profitable for the company Amana Ltd. Selling through personal website will increase

the fixed cost for the company in terms of delivery network establishment, upgradation of website and salary for full time IT programmer. On the other hand, selling through Amazon will only increase the fixed cost in terms of Amazon fulfilment fee.



Also, selling through Amazon, Amana Ltd could be able to increase the geographical reach and better brand visibility as Amana Ltd could be able to serve a large number of customers at a time. Competitive pricing will not be a problem to attain better profit margin if the company could sell higher number of products.

It is true, that selling through personal website is better to attain better brand image. The personal website could help the company to understand its customers better. The user's data, the time they are spending on the website and the products most customers are choosing can help the company to understand the market trend along with the requirement of customers (Ibrahim, 2022). These assessments are necessary to attain the loyalty of customers which is not possible by selling products through Amazon.

The facts presented about Amana Ltd is informing that the company already has a website but it is not appropriate to handle the pressure. According to the variance report it can be summarised that the company should start selling on Amazon without much increasing the fixed expenses. If Amana Ltd want to establish its own website, the company should diversify a portion of revenue to a cash reserve. In future the company can use the cash to develop a better website. However, it is not advisable to withdraw sales form Amazon. It is always better to target the market where most of the time customers are available and can reach a large number of customers at a time (Hao, 2020). In 2021 Amazon has 310 million customers worldwide among them 200 million customers were prime members (Alshmrani, 2021). Besides, Amazon has a strong delivery network and large satisfied customer base. It will take time for Amana Ltd to imitate similar number of satisfied customers and delivery network. Therefore, it is advisable for the company to start selling on Amazon to improve profit margin in near future.

Conclusion:

The purpose of budget is providing a company better financial stability by estimating the future expenses. The flexed budgets are used as feedback of the original budget to improve the financial planning for future operations. However, the budget planning doesn't estimate the environmental factors such as inflations, socioeconomic changes, improvement of technology or the availability of skilled workers. Therefore, the budget planning can help a company up to a certain level. A company always should maintain a healthy cash flow because generation of cash is the physical evidence of a financial growth for a company. In order to do the same financial flexibility is necessary.

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