



Management Accounting AS 2 Report

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Executive summary

The Amana Ltd has experienced a great loss of profit margin, comparative advantage and market share due to the outbreak of the covid-19 pandemic by declining its production and sells greatly. That is why; it has to face unfavorable quantity variance, selling price variance, and cost of labour and material variance and so on. From these perspectives the report has been prepared to determine different variances. On the basis of the variance, the present performance of the Amana Ltd has been outlined to understand the extent of the unfavorable conditions of the organisation. The report has finally outlined different recommendations and suggestions to overcome such and favorable conditions and situations.

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Introduction

To meet the demand of variable and fixed cost, it is necessary to prepare budget for a specific time (Wadsworth, 2018). On the basis of budget, an organisation can decide to purchase of raw materials, to take the cost of production, today the cost of labour and overhead. Amana Ltd is a family on tourist business organisation that provides quality and standard services to its customers for the long time. Due to the outbreak of the covid-19 pandemic, its profit margin and sales growth has severely been hampered (Taschner, 2020). It has estimated its possible loss by determining different variances like variable cost variance, activity variance, and profit variance and so on to outline possible actions to overcome the losses. The report will focus on preparing a monthly report which will include monthly planned budget, flexible budget and quantity variance. Then the report will focus on making performance analysis to explain the variance comprehensively. Then in the report give a comprehensive recommendation and suggestion for the organisation to take necessary initiatives to ensure organisational performance and competitive advantage in the market.

Part A

Construction of half monthly report containing Amana Ltd monthly plant budget flexible budget and quantity variances

Items	Flexible Budget	Planning Budget	Variance	Favorability of the Variances
Units of Souvenirs sold (Q)	80,000.0	100,000.0		
Revenue (25.00Q)	2,000,000.0	2,500,000.0	(500,000.0)	Unfavorable
Variable Expense				
Raw materials (2.50Q)	200,000.0	250,000.0	(50,000.0)	Favorable
Labor Expense (4.00Q)	320,000.0	400,000.0	(80,000.0)	Favorable
Overhead Expense (1.50Q)	120,000.0	150,000.0	(30,000.0)	Favorable
Total Variable Expense	640,000.0	800,000.0	(160,000.0)	Favorable
Contribution Margin	1360,000.0	1,700,000.0	(340,000.0)	Unfavorable
Fixed Costs				
Rent of Warehouse (200,000.00)	200,000.0	200,000.0	-	-
Insurance Expense (100,000.00)	100,000.0	100,000.0	-	-
Salary of the Full-time Warehouse Supervisor (50,000.00)	50,000.0	50,000.0	-	-
Total Fixed Expense	350,000.0	350,000.0	-	-
Total Expense	990,000.0	1,150,000.0	(160,000.0)	Favorable
Net Profit or net operating profit	<u>1,010,000.0</u>	<u>1,350,000.0</u>	<u>(340,000.0)</u>	<u>Unfavorable</u>
<i>Source: Author</i>				

Comments: Budget is a mathematical expression of planning to execute the cost of production, cost of labour, cost of overhead, administration and selling cost and so on to ensure maximum profit for the organisation (Drummond, 2018). A budget is prepared for particular period to implement a planning of the organisation. On the other hand, the activity variances can be regarded

is the difference between two budgetary figures. The variance is calculated to compare the strength and weakness between two budgets to make effective and efficient decisions for the organisation (Deluca, 2018). The activity variance is the difference between expected level of performance and actual level of performance. The actual level of performance is compared with the expected level of performance to assess and understand whether the organisation has been able to fulfill the targeted goals and objectives or not (Taschner, 2020). The above mathematical calculations show that there is unfavorable revenue screaming on the souvenirs sales due to the lower selling price. The organisation's cost minimization largely depends on keeping the quantity of cost or activity variances under control or favorable situations. Though the organisation is underline in the favorable variable expense's variance, is net profit is in the unfavorable as its favorable quantity variance is larger than the quantity variance of costs (Sitepu, 2020). The above table shows that the favorable revenue quantity variance is 500,000 and the quantity variance of cost is 160,000. Eventually, the organisation has achieved unfavorable quantity variance of quantity and net profit which is 340,000.

The construction of performance report of Amana Ltd

The performance report is prepared on the basis of different variants like quantity variance, revenue variance and spending variance. The quantity variance can be determined by showing the differences between planning budget and flexible budget. On the other hand, the spending balance can be determined on the basis of actual cost figures and the plant performance can be determined on the basis of actual activity of sales level (Appuhami, 2020). By taking the consideration of the above-mentioned variances the performance report has been prepared which is as follows:

Amana Ltd.

Performance report

For the year ended 2020

Items	Actual perform ance	Reven ue spendi ng varian ces	Favora bility of Revenu e and spendin g	Flexibl e Budget	Activit y or sales quantit y	Favora bility of the quantit y	Planni ng Budget
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			varian ces		Varian ces	varian ces	
Units of Souvenirs sold (Q)	80,000.0			80,000.0			100,000.0
Revenue (25.00Q)	1,600,000.0	(400,000.0)	Unfavorable	2,000,000.0	(500,000.0)	Unfavorable	2,500,000.0
Variable Expense		-		-	-	-	-
Raw materials (2.50Q)	280,000.0	80,000.0	Unfavorable	200,000.0	(50,000.0)	Favorable	250,000.0
Labor Expense (4.00Q)	440,000.0	120,000.0	Unfavorable	320,000.0	(80,000.0)	Favorable	400,000.0
Overhead Expense (1.50Q)	120,000.0	-	-	120,000.0	(30,000.0)	Favorable	150,000.0
Total Variable Expense	840,000.0	200,000.0	Unfavorable	640,000.0	(160,000.0)	Favorable	800,000.0
Contribution margin	1,160,000.0	(200,000.0)	Unfavorable	1,360,000.0	(340,000.0)	Unfavorable	1,700,000.0
Fixed Costs		-		-	-	-	-
Rent of Warehouse (200,000.00)	170,000.0	(30,000.0)	Favorable	200,000.0	-	-	200,000.0
Insurance Expense (100,000.00)	100,000.0	-	-	100,000.0	-	-	100,000.0
Salary of the Full-time Warehouse Supervisor (50,000.00)	35,000.0	(15,000.0)	Favorable	50,000.0	-	-	50,000.0
Total Fixed Expense	305,000.0	(45,000.0)	Favorable	350,000.0	-	-	350,000.0

Total Expense	1,145,000.0	155,000.0	Unfavorable	990,000.0	(160,000.0)	Favorable	1,150,000.0
Net Profit or net operating profit	455,000.0	(555,000.0)	Unfavorable	1,010,000.0	(340,000.0)	Unfavorable	1,350,000.0

Source: Author

Comment: The above table shows that the unfavorable revenue variance of the Amana limited is about 400,000 and unfavorable quantity variance of revenue is about 500,000. Organisation's analysis has exploded that the reason behind the difference is due to the lower volume of sales and lower selling price (Seringhaus, 2019). On the other hand, the organisation has targeted to sell about 100,000 quantities of souvenirs but in reality, it has been able to sale only about 80,000 quantities of souvenirs. Not only that, but the organisation also compelled to sell all of its products at 20% less price than the actual price due to the fall of the demand of the customer demands due to the outbreak of the the covid-19 pandemic (Kotha, 2020). The company has been able to be stemmed 500000 variances out of 9 lakh total revenue variance and the remaining 400,000 has been kept due to the lower price and demand of the customers. On the other hand, the organisation is supposed to keep the variable cost variances in the favorable situation, but the spending variance could not control the variable cost effectively and efficiently. According to the calculation, the devil cost variance is seemed as high which consequently indicates that the management of the organisation cannot utilise the human resources effectively and efficiently to the organisation's goals and objectives. The fixed cost is remained in the tolerable position the cost of the factors of production cannot change due to the change of the environmental situations like covid-19 pandemic (Karlina, 2021). It can be noticeable that, by considering the impact of the covid-19 pandemic on the operations of the business, the insurance company agreed to reduce the premium of the insurance, real estate company agreed to reduce the rent of the building which consequently made the fixed cost under control and in the favorable situations for the organisation. But the company has to face difficulties and complexities to afford raw materials from the suppliers due to the lockdown caused by the covid-19 pandemic. That is why; the company has experienced unfavorable variance of the cost of the raw materials (Roberts, 2020). The variance of overhead

was also unfavorable due to the poor management. Despite of that the company experienced huge amount of revenue and quantity variance which contribute a lot to the contribution margin, gross and net profit margin and so on. About 340,000 variances out of 895,000 net profit variance happens due to the poor management of the costs and fall of the the selling price due to the outbreak of the covid-19 pandemic (Nicola, 2020).

Suggestions to Amana anterior se management about the sectors where improvements can be made

The maximum profit and competitive advantage in the market cannot be possible for any organisation if it can create huge demand in the market (Alsafi, 2020). That is why; the Amana Ltd must have the understanding about the market condition, trends, customer desires and demands, competitor's strategy and so on to get strong financial strength in the market. Besides that, the organisation should have to search alternative supply chain management if the government cannot lift the the covid-19 pandemic lockdown (Sohrabi, 2020). It should not wait until the government lifts the lockdown and other restrictions from the market. One of the best possible solutions can be for the organisation is that it can use the online platforms to supply the goods and services to the customers. The online supply chain needs less labour and transportation cost to deliver the products to the customers (Kerwan, 2020). In that case, the organisation can minimise the variable cost variance. On the other hand, it can conduct promotional activities through different online platforms like Facebook, Twitter, Instagram, radio, television and so on to introduce the products and services with the expected and real customers. The online promotion activities also are cheaper than the offline promotional activities. As a result, the organisation will be able to reduce variable cost variance largely. If the organisation can minimise the variable cost variance it can consequently reduce the cost of production which will ensure maximum profit for the organisation (Kerwan, 2020). On the other hand, due to the fall of the income level of the customers, they cannot afford the products and services according to the previous selling price. So, if the organisation can reduce the production and overhead cost, it can charge least selling price for the customers. As a result, the company will be able to ensure large quantities of sales. Another important suggestion can be for the organisation is that, as it cannot go for the physical selling, it can alter the types of customers by focusing only teenage and young customers as they spend much of their time over the online platforms. A research shows that the teenagers and the youths spend 20% more on

buying the souvenirs over the different online platforms (Nguyen, 2020). By this way, the organisation can revive its market share and competitive advantage in the market.

Another suggestion can be for the organisation is that it can sack some of its employees which are not required by the organisation at this moment as the organisation cannot go for full phase physical operational activities. Another alternative can be for the organisation is that without sacking the employees, it can reduce the wages and salaries of the the employees and labours. But the organisation can choose the first option as the second option can generate huge dissatisfaction and anger among the employees. As a result, the organisation can be able to reduce the cost of labour which consequently helps it to recover the losses (Iosifidis, 2020).

Part B

The analysis of the options of selling half of Amana Ltd.'s through online channels

The UK is engulfed with the distress and sufferings of the covid-19. The people cannot move freely from one place to another to buy their goods and services. On the other hand, organisations are also forced to close down every operational activity until the normal situation comes back (Agha, 2020). By considering this situation, the organisation must choose an effective and efficient option from numerous possible options to ensure maximum sales growth. Among different possible options, the organisation can either build its own supply chain management or it can merge with amazon.com to deliver the goods and services to its customers. The performance of the organisation and the largest customer base suggest for it to go for delivering the goods and services to the customers with its own supply chain management. On the other hand, from the perspective of delivery cost, the organisation should merge with amazon.com to deliver the goods and services to the customers (Kerwan, 2020).

But the senior managers and board of directors have come to the conclusion that the organisation should go for delivering the goods and services to the customers with its own supply chain management. The justification behind this decision is that amazon.com is the world largest online retail selling platform in the world (Kerwan, 2020). Almost all of the largest organisations sell the goods and services to the customers through amazon.com. So, it has a much possibility that the organisation will face complexities and difficulties to compete with the large organisation to sale

its goods and services to the customers. That is why; the senior managers and the board of directors have decided to build its own supply chain management to overcome the competition (Sohrabi, 2020).

The second justification behind choosing to build own supply chain management is that it will have full control over its own supply chain management. On the other hand, if the organisation has to depend on the amazon.com, the organisation cannot be able to sale in the goods and services at the right time and at the right place. It has to wait for the long time to get access in the online market. Besides that, if there any system happens the organisation would have to face use loss of the profit and market share (Sohrabi, 2020). On the other hand, many of the organisations have raised numerous complaints about the service quality of the Amazon like ok delay delivery, poor packaging, poor uploading and unloading and so on which created huge customer dissatisfaction. So, the Amana Ltd also faces the above-mentioned problems which can severely for the credibility of the customers. That is why the organisation should be building its own supply chain management to make independent decisions to provide products to the customers (Alsafi, 2020).

The third justification for online selling is that the organisation can deliver the products to the customers as much as it wishes. On the other hand, if the organisation will go for online selling via amazon.com, it will have limited opportunities. The senior management has given estimation that the organisation can make 100,000 quantities of sales which are 50% more than the sales of amazon.com (Alsafi, 2020). As the organisation lost 500,000 quantities of sales due to the covid-19 pandemic situation, the organisation must have to enhance its sales growth to bring dynamism and performance in profitability. It is mentioned in the above that the organisation has already lost 895000 net profits; it will have to increase its total sales at any cost. Moreover, if the organisation can build its own supply chain management, it can provide services according to the needs and demands of the customers which will make them loyal to the organisation for the long time (Taschner, 2020).

The fourth reason to choose own supply chain management is that the organisation has to pay less fixed cost if it can establish its own supply chain system. The senior management has given opinion that if the organisation sales products through amazon.com, it will have to pay 50,000 delivery

cost per year. On the other hand, the organisation will have to pay only 35,000 per year delivery cost if it can sell products through its on-delivery system (Sitepu, 2020).

Conclusion

The Amana Ltd has experienced huge profitability and sales growth loss due to fall of the demands of its goods and services and inefficient management of the cost of different materials. So, if it wants to boost up sales growth and profitability, it will have to find out alternatives to increase the demand for the production services among the customers. Online selling is the important medium that can accommodate a large number of customers in the organisation to purchase goods and services according to their needs and demands.

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