



University of Wales Trinity Saint David

REPORT

BAMB L5 T1G1

Moodle: Management Accounting

Assessment 2

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I Introduction

Internal business users are served by management accounting in the decision-making and policy-making process. This report is prepared on the basis of management accounting. The report will address two tasks. The first part will be the preparation of control reports with original, flexible and variation budgets, analysis of the implementation and recommendations to the executive director of Amana Ltd., which is a family company engaged in tourism and tourism business. The last part will be a comparative analysis of two available alternatives for upgrading an online distribution channel through own expertise or hiring a foreign platform.

II Part A

1. Preparation of monthly control report showing original and flexed budget with variances

Budget is the advance allocation of resources for a certain number of heads with an objective to be achieved or estimation of income to be generated and expenses to be incurred within a period (Horngren, et al., 2015). This budget helps to forecast future business trends. Budget can be divided into many types. Amana Ltd. has some estimates of sales unit, sales price, variable and fixed overhead costs. A budget is prepared based on these estimates which is called here original budget (Horngren, et al., 2015). However, sales unit was different from what was forecasted in original budget (Ahrens and Chapman, 2007). This is why another budget is prepared for the adjusted sales unit which is called flexed budget (Bromwich and Bhimani, 2015). Both of the budget is prepared and presented below. It is seen that there is a difference between original and flexed budget. The difference is called variance which can be favourable, unfavourable or none. Flexed budget is only prepared to upgrade original budget only when actual sales units differ from budgeted sales unit (Bromwich and Bhimani, 2015). Here, actual sales unit is 80,000 while original budgeted sales units is 100,000. Difference exists and this leads to prepare flexed budget.

Particulars	Cost per unit	Original Budget £	Flexed Budget £	Actual Budget £	Variance
Units		100,000	80,000	80,000	
Selling price	25	25	25	20	5 UF
Sales (A)		2,500,000	2,000,000	1,600,000	-400,000 UF
Less: Variable cost (B)	8	800,000	640,000	840,000	-200,000 UF
Materials	2,50	250,000	200,000	280,000	-80,000 UF
Labour	4	400,000	320,000	440,000	-120,000 UF
Overhead	1,50	150,000	120,000	120,000	0

Contribution margin (C=A-B)	17	1,700,000	1,360,000	760,000	-600,000 UF
Less: fixed overheads (D)		350,000	350,000	305,000	0
Warehouse rental		200,000	200,000	170,000	30 000 F
Insurance		100,000	100,000	100,000	0
Warehouse supervisor salary		50,000	50,000	35,000	15 000 F
Warehouse supervisor salary (E=C-D)		1,350,000	1,010,000	455,000	-555,000 UF
F- Favourable ; UF – Unfavourable					

Table 1

2. Preparation of Amana's performance during the year 2020

Flexed budget needs to be compared with actual outcome obtained in a year for a better comparison. It is done below where actual outcome of Amana's is compared with the flexed budget. The difference will be the variance which is favourable, unfavourable or none. If actual revenue is higher flexed revenue or actual cost is lower than flexed cost, then the variance is favourable (Hansen, et al., 2021). Alternatively, if actual revenue is lower than flexed revenue or actual cost is higher than flexed cost, then the variance is unfavourable (Hansen, et al., 2021). Favourable variance is expected and it is a sign of good performance where unfavourable variance is undesirable and considered as a sign of poor performance (Garrison, et al., 2013). Flexed budget, actual performance, variance and comment are provided below.

The table shows both favourable and unfavourable variances. First variance is unfavourable which is the selling price. It was estimated to be £25 which was actually £20. The difference of £5 per ticket sold is less than expected price which ultimately hit the total sales where actual sales is £400,000 less than that of flexed budget. Thus, sales price and total sales are unfavourable which are the sings of poor performance of Amana Ltd. Total variable costs is also unfavourable because

actual figures of materials and labour are higher than those of flexed budgeted amount. However, total fixed overhead is favourable where actual warehouse rental and warehouse supervisor salary are lower than those of flexed budgeted amount. In summary, net income is unfavourable because total unfavourable variance is higher than total favourable variance. So, overall performance of Amana Ltd. is not good as its actual performance is lower than budgeted performance.

3. Recommendations to Amana's CEO on areas of improvement

Based on reports prepared in previous sections, it is found that performance of Amana Ltd. is not good. It has underperformed than its budgeted target. In this section, some recommendations are made to the CEO of Amana Ltd. for performance improvement. Firstly, Amana is seen to have 20,000 lower ticket sales than expected sales of 100,000 tickets which is the main reason behind the difference between original and flexed budget. This reduction in ticket sales is partly because of prolonged covid-19 pandemic in 2020. Considering this, CEO of Amana is recommended to boost up ticket sales in upcoming years which will improve its revenue to absorbed losses. Sales can be increased in many ways. Marketing and campaign can improve sales. Advertising and personal communication can improve sales (Hansen, et al., 2021). Discounting and promotional tools may attract new customers. Loyalty programs and sales commission for sales representative may be also the incentives to boost up sales (Sprinkle, 2013).

Secondly, selling price per ticket is seen to cut down from £25 to £20 which is another reason behind unfavourable performance in sales revenue. This cut down in price might be due to covid-19 situation. However, this cut price should not be continued which must be adjusted considering overall industry situation. If the overall industry practice goes on cutting price for competition or holding market share, it should be applied by Amana Ltd also. It also can try to take different strategies to raise sales price. One way is to improve service quality and including some premium quality unique services that will justify higher price per ticket to customers (Jiambalyo, 2019). If this can be ensured, price will rise and thereby performance will improve.

Thirdly, Amana had incurred more costs actually than budgeted amount in case of material cost. Materials cost may increase due to inability of bargaining power or use of faulty materials that over consumed materials. Another way is the misuse and wastage of materials during production or

serving (Garrison, et al., 2013). Actual reason must be found out and accordingly actions need to be taken which is recommended to CEO. Hiring efficient employee in material purchase, ensuring better quality of materials and checking wastage and misuse of materials during production or serving customers are the ways to improve performance in respect of material cost (Garrison, et al., 2013).

Fourthly, labour cost is higher which maybe because of employing more labours than required man powers. Another reason can be hiring inefficient labours. Disturbance or any trouble may delay flight time and thereby increases labour which is another reason of higher labour cost. Actual reason must be investigated and accordingly CEO must take actions. Hiring required labours with required skills and efficiencies and checking any disturbance of service delay improves efficiency of labours which save labour costs and so does business performance (Garrison, et al., 2013).

CEO of Amana Ltd. is recommending these four recommendations by which sales can be increased and cost can be controlled. This is how CEO of Amana can lead to improve overall performance of the business.

III Part B

This part presents a case study when Amana Ltd wants to streamline its business on online. To do so, Amana Ltd. has two alternatives. Alternative one is to develop own online site and alternative two is to use online site of Amazon for a fixed annual fee. Each alternative has its own advantages and disadvantages. The alternative which will maximise the economic benefit, Amana should accept that alternative. To evaluate each alternative, incremental cost benefit technique is used. In this analysis, benefits and costs which directly affect the benefit are relevant costs and revenue and whose acceptance or abandon will have no effect on the project are irrelevant costs and revenues. In alternative evaluation, only relevant cashflows are considered and input for analysis.

Alternative one is to develop own online site. This will be done hiring full time IT programmer where full control of the business will be ensured to provide safety and protection to customer data. It will require a £150,000 for setting up the delivery network, £50,000 for upgrading current website and salary of an IT programmer £35,000. These are relevant incremental costs associated with alternative one. Availing this alternative will result in guaranteed sales of 100,000 units. Each ticket is currently sold at £20. Considering this relevant incremental benefit along with other incremental costs, following table is prepared.

Alternative 1: Developing self-online site		
Particulars	Amount	
Incremental Sales (100,000 units x £20)		2,000,000
Less: Incremental costs		
Cost of setting up delivery network	150,000	
Cost of upgrading current website	50,000	
Salary of a full time IT programmer	35,000	
Total incremental costs		235,000
Net benefit		1,765,000

Table 2

This table shows that incremental benefits (sales) of alternative one is 2,000,000 whereas total incremental costs is £235,000. The positive difference between incremental benefits and costs is

£1,765,000. This can be net benefit or economic benefit of availing alternative. Now let's alternative two to compare this benefit with. Then, a concrete decision can be made.

Alternative two is to use Amazon.com site. Amana Ltd. has to pay a fixed fulfilment fees annual for using this site. This charge is £50000 annually. This is the relevant incremental cost associated with alternative two. Estimate says that this alternative will lead to boost up sales by 65000 units annually which is the incremental benefits. These are considered in estimating net benefit of alternative two which is presented in below table.

Alternative 2: Use of Amazon Site	
Particulars	Amount
Incremental sales (65,000 units x £20)	1,300,000
Less: incremental cost	
Amazon fulfilment fees	50,000
Net benefit	1,250,000

Table 3

This table shows that incremental sales is £1,300,000 and incremental costs is £50,000. Net economic benefit is £1,250,000.

Decision criteria 1: Based on net benefit or cost-benefit analysis on incremental basis, it is found that alternative one has net benefit of £1,765,000 where alternative two has £1,250,000. Alternative one has higher net benefit and thereby it is recommended to CEO of Amana to accept alternative one which is the option to develop own online by the business itself as this will lead to maximise value of the business (Williams, et al., 2015).

Decision criteria 2: Besides economic benefit, other issues can be key determinants in making a decision (Noreen, et al., 2008). This is true in this case also. Alternative two will use Amazon.com platform which is controlled by Amazon.com where Amana Ltd. will have literally no control. In this regard, it will have full control over its own developed site. This control is very crucial for an online site where sensitive information of customers is used which needs to be protected and safeguarded from hacking and disclosure. This will be ensured in alternative one. That's why alternative one is further recommended for Amana Ltd.

Decision criteria 3: Moreover, there is much competition among competitors in rental site of Amazon.com as similar products and services of different businesses are available in the same site. This will force Amana Ltd. to cut its price down to sustain in the competition. This will further reduce the economic benefit. Conversely, customers will not have the option to compare competitors' side by side on own site which will not directly invite competition. Again, rules and regulations of Amazon.com may not be favourable for Amana which change from time to time. If this happens, then it will have nothing to do with just abandon the project and make a significant loss. So, alternative one which is to develop own online site is suggested here to Amana Ltd.

Decision criteria 4: Alternative one has higher sales units while alternative two has lower sales units. Higher sales mean of higher customer exposure. If Amana develops its own site, it has the opportunity to offer additional products on the same site where existing customers will be targeted. This will be ensured in case of own site and absence in case rental site. So, it is also suggested to alternative one.

IV Conclusion

Amana Ltd. is operating travel operators located in London. This management accounting report is prepared for this business. CEO of the business is helped in two problems. Problem one was about budgeting, variance analysis, performance management and recommendations for performance improvement. Analysis shows that Amana has unfavourable variance between flexed budget and actual outcome and this implies poor performance of the business. CEO of the business was recommended four suggestions to improve performance which are increasing sales level, adjustment of sales price, controlling material cost and controlling labour cost.

Secondly, the business is thinking of developing an online business platform for which it has two alternatives. Analysis shows that it would be better for Amana Ltd. to develop its own online site rather than using Amazon.com site as supported by both economic and non-economic decision criteria. Finally, it can be concluded saying that performance of Amana Ltd. is poor which is suggested to improve by different recommended ways and alternative one of developing own online site hiring IT programmer will be best alternative to come with for Amana Ltd.

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