

Management Accounting

(LCBB5002)

XLG

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Introduction

According to the information XLG is a British cleaning product company which produces two main cleaning agents X and Y, even if they are operating in a highly competitive environment, they have on their side a superior cleaning agent that is used to be added in their both chemicals, making them one of the best on the market. The special agent is called FamaQ and is patented, meaning no one else can use it, and it is produced in Brazil.

Part A.

The new accounting year for 20/21 started on 1 December 2019, begun as usual with nothing unexpected to happen, but just another year. The managers focused on their budget strategy using the historical data, and analyzing the market and competition to set the following forecast:

Budgeted sales for chemicals X and Y are splitted equally 595 to create the total budget sales of 1190. The standard sales price was £35 per unit for chemical X, and £30 for chemical Y. Each of the cleaning agents requires 1 unit of FamaQ which is at original standard price of £2.50 per unit and its transported from Brazil to UK with international sea transport.

But the so far normal year was completely messed, during the second quarter of the year starting March 2020, when the planet met one of the seriously strong health pandemics for more than a century ago, which confused and created chaos in the world health and economic system. This bring the individuals and businesses to massive changes in their ordinary life.

In situation like this one XLG was forced to reinform their budget strategy. The negative fact came from Brazil when during the lockdown and

the international restrictions, the sea transport was replaced by an air one, which led to increasing the material standard price of £2.50 per unit for FamaQ to £4.50. However, XLG actually paid £3.70 per unit.

Because of the new very unusual situation, lots of company lost serious position, finances and even some faced the bankrupt. Luckily for XLG as they are operating in the cleaning industry, the new situation was good for them, as people get extremely obsessed in cleaning and the demand for such a of products colossally increased. That forced the managers to increase the sales volume and by the end of the second quarter, the actual sales for chemical X 850 and for chemical Y was 750 this one not only increased the budget predictions by sold 410 agents more, but also done it on a higher than the standard price, when the actual sale price hitted £45 for agent X and £37 for Y. The standard margin was £25 per unit for X and £20 for Y. The two-basic reason for increasing the price was the demand from people for cleaning products and the higher price due international restrictions for FamaQ transportation. By having this information, we can figure it out the following stuff:

Sales Price Variance

Description	Actual Price £	Standard Price £	Difference £	Actual Volume	SALES PRICE VARIANCE
Chemical X	45	35	10	850	8.500
Chemical Y	37	30	7	750	5.250
Total					13.750

Sales Volume Contribution Variance

Description	Actual Sales Volume	Budgeted Sales Volume	Difference	Standard Margin	SALES VOLUME VARIANCE
Chemical X	850	595	255	25	6.375
Chemical Y	750	595	155	20	3.100
Total					9.475

Material price planning and purchasing operational variances

- Material planning variance – $(2,5 - 4,5) = 2 \times 1600 = 3200$
- Material price operational variance – $(4,5 - 3,70) = 0.80 \times 1600 = 1280$

Part B.

Unfortunately, the times in any aspect of our life are hard. We need to be flexible and to adopt in the new surrounding environment as most likely the pandemic will continue for a time that cannot be estimate completely. Even in these dark moments, XLG still saw the bright light in the tunnel. The cleaning industry blooms as never before, people are strongly obsessed to keep everything around them clean, and most likely these occurrences may continue after the virus is gone as habits.

Thanks to the exceptional FamaQ formula, XLG is a leading company on the British market. We have noticed a serious change in the budget strategy with very good results, maybe we are at the doorstep to new beginning of budget forecasting with braver predictions. At the end of second quarter the sales got on high level, unexpected before March, and even on a price above the original. However, the new situation with FamaQ, is a bit difficult, and the price has gone up. This agent is extremely important for the company, and now the opportunity to be made in UK should be considered.

The arguments why FamaQ should come in-house are the following:

1. It is going to be cheaper than Brazil
2. Far trips – Not only costing money, but also eating-time
3. XLG will acquire flexibility by operating with the cost. When the cost got higher - £45 for agent X and £37 for chemical Y, the company did not have much opportunities to play with the price and eventually to try to put it down when was necessary as they depend from the Brazil's higher price and long trips.
4. Supporting the local economy – By times of coronavirus and Brexit, if the company decide to come home will be in help for the economy of the country – It will open job opportunities for the locals, as well as putting extra taxes into the state treasury.
5. The idea of Brexit is UK to depend only by their own decisions. Soon or later will start to create new individual contracts with different countries – Then it is quite possible to move the business for a price that even was less in Brazil before the restriction to a nearby country, most likely an eastern European one.

References

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