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**Amana LTD – how does the business perform and what can do further to
progress**

Report

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1. Introduction

Management accounting is a type of accounting aiming to present to businesses in-depth information on their performance based on their sales, incomes, assets, etc., (Matiukha and Rovnyagin, 2020). So, it uses usually the items from their annual statements and balance sheets, but in an aim to track how the changes in them reflect the business performance (Rasiyah and Kosasih, 2017). It is basically a decision-making accounting (Babajide, 2021). The following report is focused on the business of Amana Ltd. – a small company in the creative industries sector – and aims to reveal its development during 2020. The first part of the body of the report gives an overall perspective over the main business indicators of the company in 2020 and the second part of the body discusses some potential opportunity that the company may use for its growth.

2. Main Body.

2.1. Part A. Question 1

The first question aims to showcase the business performance of Amana Ltd in 2020. For the answer of this question are used the data from the case and the presentation: the data on original and actual budget plus some data on the costs per unit given. According to these data is prepared a table, entitled Table 1 „Business indicators of Amana Ltd” and it can be seen below. For a better understanding of the source data – given in the case study paper and the presentation as stated above – these source data are colored in blue while the calculated ones are not colored. The table follows the given format of the presentation as there are present all the data needed for the analysis.

The source information is most abundant to calculate the indicators in the Cost per unit column. As it is per unit, so in the first cell Units should be mentioned 1, in aim not to misunderstand for what quantity of units are the calculations below. The variable costs are formed by the costs of materials plus the labour cost plus the overhead per unit. The fixed overheads per unit can be found from the source information for original budget: as they are all together 350,000 and as the company has 100,000 units in the original units, so the overhead per unit is the result from dividing 350 000 to 100 000. It makes 3,5

pounds per unit. The Warehouse rental, Insurance and Fulltime warehouse supervisor salary per unit are calculated in a similar manner: the total of each of them is divided to 100 000 units, as the original budget – which is prepared by the company in aim to know how much they will sell during the year – the number is 100 000. The profit per unit is the result of the calculations after subtracting from the selling price two numbers, the variable costs and the fixed overheads per unit. The profit per unit amounts at 13,5 pounds.

The cost per unit column is the most important column of the table, because on a later stage almost all the other missing numbers can be found by calculations related to the costs per unit and, of course, to the same logic applied toward the first column. By multiplying selling price and units sold is found the revenue, both for the original and for the actual budget, just the numbers to multiply differ. The different types of variable costs from the original budget and their total can be found by using the data already calculated on costs per unit from the first column. After the profits can be calculated as well. The actual budget column is filled in its greater part, except of the revenue, variable costs and fixed overheads, and they can be calculated on the basis of the source data for this column, applying the same logic from the first and the second column. Here finally again profits should be calculated. Variances can be found for each sell through a simple operation: subtracting the number in a given cell from the actual budget column from the number in the same cell from the original budget column.

Table 1. Business indicators of Amana Ltd

	Cost per unit (£)	Original budget (£)	Flexed budget (£) Should have	Actual (£) Did	Variance
Units	1	100,000	60 000	80,000	20,000
Selling price	25	25	25	20	5
Revenue	25	2,500,000	700 000	1,600,000	900,000
Variable costs:	8	800,000	800 000	840 000	40,000
Materials	2.50	250,000	250,000	280,000	30,000
Labour	4	400,000	400,000	440,000	40,000

Overhead	1.50	150,000	90,000	120,000	30,000
Contribution	17	800,000	800 000	760,000	40,000
Fixed overheads:	3,5	350,000	350,000	305,000	45,000
Warehouse rental	2	200,000	200,000	170,000	30,000
Insurance	1	100,000	100,000	100,000	0
Fulltime warehouse supervisor salary	0,5	50,000	50,000	35,000	15,000
Profit	13,5	550,000	550 000	455,000	95,000

2.1. Question 2

The second question is focused on the pure analysis of the performance of the company Amana Ltd in 2020. The analysis is based on the results calculated in the Table 1 „Business indicators of Amana Ltd” above. The first thing that draws the attention when looking at the table is the harsh reduction of the selling price per unit from the original budget to the actual budget. The reduction is of 20 percent and the factors behind it should be investigated in aim to understand what pushed the company to make such a reduction. The most probable factor for this is the sales decline, as based on the table, the company sold only 80 000 units in 2020 as per actual budget, compared to the 100 000 units written in the original budget. The most obvious reason for such a decline is the coronavirus restrictions imposed which literally forced many small shops to close for some months in the aim to align with the social distancing rules. The downturn in tourism has also caused the decline of the sales of Amana Ltd, as the company sells souvenirs and less tourists obviously mean less people who need to purchase souvenirs.

In the same time, the fixed overheads diminished, as the warehouse rental dropped from 200 000 pounds in the original budget to 170 000 in the actual budge and the fulltime salary for a warehouse worker dropped as well from 50 000 to 35 000 pounds per year. So, there is no reason to blame the fixed overhead for the reductions in selling price, as the company obviously did not have to pay more overhead.

The main problems seem to come from the variable costs increase. The price of labour rose from 400 000 to 440 000 pounds from original to actual budget which is 10 percent. The price of materials rose from 250 000 to 280 000 pounds which is 6,7 percent of increase between the original and the actual budget. In the overhead there is a decrease from 150 000 to 120 000 pounds which is 20 percent, but it obviously can't compensate the rise in costs of materials and labour. So, based on this first-look analysis, the main problem of Amana Ltd seems to be the expensive manufacturing services that they use.

2.1. Question 3.

The third question requires to identify the main problems that make the Amana Ltd performance to decrease and to find some recommendations for them. The best way for it is to focus on the variance column from the table in the aim to understand the rises and falls of the business. The variance analysis has been known for a long as one of the most objective tools to detect the trends in the business performance (Budde, 2008) and now it can be fully used. Theorists suggest the great power of the variance analysis to showcase why business reality differs from the business plan, or, briefly said, why the companies can't achieve what they have previously planned to achieve as numbers (Emsley, 2000).

In the context of all said until now, the variance analysis can help to understand why the actual budget of Amana Ltd is so different compared to the original one. The biggest inconsistencies between the numbers in the two columns appear in the decrease of the selling price and in the decrease of the sales between the original and the actual budget. It means that – although the company has decreased the selling price of the souvenirs, it can't manage to sell more. When even decreasing the price can't help in boosting sales, it could be assessed as a disastrous situation for a business (Wan and co, 2012).

The first flaw perceived is the increase of the materials and labour costs. So, the first recommendation in this sense of thoughts is to change the manufacturer. As the case study shows, currently the company relies on Chinese manufacturers, but theorists often suggest that China is no more a very attractive outsourcing destination, as costs of raw

materials and salaries there increased (Schruher and Kruger, 2010). So, maybe shifting to a UK based manufacturer can reveal better for Amana Ltd, as at least it will save to the company time and efforts to deal with unpredictable overseas suppliers.

The second flaw perceived is the decline both of sales and prices. So, the second recommendation is to increase the sales and potentially keep the selling price from the original budget. It can be done through online sales as they boosted across the globe during the pandemic (Tolstoy and co, 2021). Increasing sales can also pass through diversifying the clients to sell to (Jayathilake, 2018). In the case of Amana Ltd it can happen through starting to sell branded souvenirs to e. g. hotels and chic restaurants to attract corporate clients which is a popular practice in France.

2.2. Part 2. Question 1

The second part of the body of the report is focused on the online sales as they are currently in the plans of Mr. Amana in the aim to boost the sales. His presumptions for them are based on the fact that currently many companies in the creative industries sell online in the United Kingdom, Europe and in the United States via internet.

Theorists suggest that the online selling is the future of the commerce (Swinyard and Smith, 2003). The customers across the globe are willing more and more to shop online, because it usually saves them time and commutation costs (Ahmad and co, 2010). In front of Mr. Amana lay two options to launch online sales: through a personal web shop of its business or selling through Amazon.

In the aim to make the right choice, Mr. Amana should check the costs associated with both the two options, their pros and cons. A decision to take based on the analysis is advised to him as well, based on objective arguments that have arised within the analysis.

The costs of the first option – making an own online shop – are various. Making a delivery network is 150,000 pounds. Upgrading the existing website of Amana Ltd – used until now just for marketing – to be able to sell online is 50,000 pounds. A full-time programmer to support the hardware and the software of the site is paid 35,000 pounds

annually. So, the raw costs for launching an own website are 235 000 pounds, taking into account the three mentioned types of costs. Through a personal web shop, a minimum of 100,000 souvenirs can be sold every year. Given a selling price of 25 pounds per souvenir as per the original budget projections, it means 2 500 000 pounds yearly revenue. Given a selling price of 20 pounds per souvenir as per the actual budget projections, it means 2 000 000 pounds yearly revenue.

Pros of the option 1

Two main pros of the first option appear. The first pro is that an own online shop gives to the company a good control over the sales and over all that happens in the shop: if a comments section or a forum is integrated there, the company can manage the comments in the aim not to let purposely negative reviews to ruin its image (often competitors may pay trolls to ruin the image of other companies by writing untrue, but very bad comments), but letting just objective and non-offensive comments.

Another pro of an own web shop is that it will let to the company to sell more. Selling on an own web shop means no competition on the page the user is visiting: no suggested items from other producers, etc. Usually when users browse in a web shop, they are more prone to finally choose a product from this shop or at least to remember it as a brand they have visited for a certain time.

Cons of the option 1

The cons of selling through an online shop are two, as well. The first one is the high costs that are required for building and opening the shop such as buying servers, hardware, employing a programmer, integrating a pay system and support all the costs associated with it.

The second disadvantage is that running an own online shop may be risky, if not an adequate marketing and advertising is done. In the aim to attract visitors, one of the main things to do is to pay for adverts: to Google, to social media or ordering banners at big websites. Eventually employing influencers and professional advertising agencies may

increase the costs immensely, although currently the cheaper options like Google and social media ads are also good and cost less.

The second option – selling through Amazon – has also multiple costs associated. Fulfillment fees of Amazon are high and they amount at 50 000 pounds per year. But the good thing is that apart of them nothing needs to be paid. In platforms like Amazon the competition is hard and the company may expect to sell around 65 000 souvenirs yearly. Given a selling price of 25 pounds per souvenir as per the original budget projections, it means 1 625 000 pounds yearly revenue. Given a selling price of 20 pounds per souvenir as per the actual budget projections, it means 1 300 000 pounds yearly revenue.

Pros of the option 2

The second option has two important pros. The first one is that it requires just 50 000 pounds to set up, rather than the 235 000 pounds required for an own web shop.

The second pro is that Amazon will deal with everything: from support to adverts and Mr. Amana has nothing to pay for more. So, there will be no additional expenses, but just incomes from sales.

Cons of the option 2

The cons associated with selling through Amazon are two. Through Amazon the company will sell less, as the competition is quite hard, as stated in the case, and often customers browse around multiple suppliers before they chose.

The second con is that selling through Amazon means no control over the sales themselves and the strategies that Amazon integrates in order to sell more. Usually such big commercial platforms have standard ads through keywords and less creativity is involved, compared to an own done advert.

Most appropriate option

The two options discussed both appear as good solutions. However, given the revenue each one may provide, the option for selling through an online shop appears as more profitable. If the company lacks the sufficient capital to fund it right now, they may

apply for business credit as well and repay it for some years, as projected revenue is much higher than initial investment and banks will be willing to fund such a project.

3. Conclusion

In conclusion, can be resumed that management accounting can help much businesses to develop by providing deep insights on their performance over simple indicators (Kaplan and Norton, 1996). The experience of the Amana Ltd revealed its impact in practice as well: thanks to a managerial accounting analysis the company may save and potentially fast grow its business, providing that its owner follows the recommendations addressed.

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