

UNIVERSITY OF WALES TRINITY SAINT DAVID

BA (HONS) IN BUSINESS MANAGEMENT, Level 5, Term 2

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LCBB5002 - Management Accounting

Assessment 2: Report

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Introduction

Amana ltd. is a family-owned tourist business located in England which sales souvenirs to tourists. It has key locations which are tourist hotspots across England by the name London Bridge, Brighton, Westminster Bridge, Buckingham Palace, Birmingham city center and Manchester city center. The strikes of Covid 19 in England lead to lockdowns and travel restrictions which affected the tourist industry. Amana revenues were also hit heavily in 2020. Before, the company operated under physical store and had a functioning website which served as a channel of marketing the business. Currently, Mr. Amana wants to propel the business ahead by venturing into online selling either through Amazon or its own website. This paper will break down the costs incurred and come up with a control budget, flexed and variances involved. Further, will prepare a report showing Amanas performance and give recommendation on the areas where the business needs to improve.

Part A

Amana ltd

Monthly Control Reports Showing Original Budget, Variable and Actual.

	Original budget £	Actual £	Variance £	F/U	Variance %
units	100,000	80,000	20,000	U	20
Selling price	25	20	5	U	20
Variable Cost					
materials	250,000	280,000	30,000	U	12
labor	400,000	440,000	40,000	U	10
overhead	150,000	120,000	30,000	F	20

contribution	1,700,000	1,160,000	540,000	F	32
Fixed overheads					
Warehouse rent	200,000	170,000	30,000	F	15
Insurance	100,000	100,000	0	F	0
salary	50,000	35,000	15,000	F	30

Amana Ltd.

Variance Report for Budgeted Statement of Financial Performance

	Budgeted £	Actual £	Variance £	F/U	%
sales	2,500,000	1,600,000	900,000	U	36
Less cog	250,000	280,000	30,000	U	12
Gross Profit	2,250,000	1,320,000	930,000	U	41.3
Less operating expenses					
Rent	200,000	170,000	30	F	15
Labor	400,000	440,000	40	U	10
Overhead	150,000	120,000	30	F	20
Contribution	1,700,000	1,160,000	540,000	F	32
Insurance	100,000	100,000	0	F	0
Salary	50,000	35,000	15000	F	30
Total	(2,600,000)	(2,025,000)	575,000	U	
Net Loss	350,000	705,000	355,000	U	101

Amana Performance Report In 2020

Following Covid 19 travel restrictions, Amana ltd. sales fluctuated throughout the year with very little sales during Easter, an improvement in summer but then another down fall between December and February which scooped all the sales which had been made during summer. Performance report gives a comparison of the actual sales and costs within a given time with the estimated figures of revenues and costs. According to Kumar (2021), performance report explains the difference between the actual company performance and the budgeted performance for the given financial year. The report plays a key role of showing deviations between estimated and actual figure of revenue and costs. As a result, the managers are able to make strategic decisions, analyze possible opportunities and set goals which are viable. Further, it will identify any area which needs adjustment (UBISOFT, 2021). From the above control reports, variance has been shown between costs and revenues of the budgeted and actual. Consequently, one will be able to know which cost to reduce or maintain. Further, the management will be able to know that they need to set goals geared at boosting their sales (Basic Financial Accounting, 2021).

From the above report, Amana ltd. is making losses with most of the elements in the budget showing unfavorable outcomes. For example, the fixed and variable costs are too high impacting on the bottom line. Also, the sales projected and the selling prices remain higher than the actuals creating unfavorable outcome. Generally, the whole year performance is not favorable and continuity of the same would lead the business to a closure.

The sales element has a variance of 36% meaning that the business could not meet the estimated sales target. As a result, the business needs to set strategies and make adjustments on the existing strategies all aimed at boosting its actual sales. Such sales could include the

change in selling techniques and avenues. Diversification into new products, venturing into new markets or selling more on the online platforms since people are shopping more online than before the pandemic. Further the business can intensify its marketing to pull more customers and boost the sales. The company also did not manage to sell the products at the price budgeted but at a lower one which has impact on the bottom line as well. Such could have been attributed to the low demand in tourism and travel which led the company to use cheaper prices to attract more buyers. If the situation was normal, and there were no Covid 19 restrictions, the business could be booming and the company could have sold its products at the estimated prices which are higher by £ 5 (UBISOFT, 2021).

According to Basic Financial Accounting (2021), there are factors which affect demand for a product at a given prices leading the business to give discounts or lower its prices. In this context, there is the Covid 19 travel restriction and others like consumer change in income, future uncertainties which made consumers to spend less and save more, and further, the lack of established online channels in the company website which could allow customers to order (Krishman et al, 2020).

The operating expenses if not well controlled and can weigh heavily on the business bottom line (UBISOFT, 2021). In the case of Amana, we have different expenses which remained unfavorable hence reducing the profits. The warehouse rent is a fixed cost which has to be paid regardless a sale is made or not. As a result, the lower the figure is during hard times the better for the business (Basic Financial Accounting, 2021). The warehouse rent is less than budgeted but still high for the year 2020. During the year, the business did not sell well and economies were not doing well. As a result, the managers should have sourced for a cheaper warehouse to store its goods or negotiate for reduction of rent rates until business picks up. Further, the business should have taken measures to reduce the goods and material in the stores following the reduction of demand. Continuation of production at such a time would only lead

to surplus which eventually requires a storage space, maintenance and supervision expenses. Through less production according to the demand, and less storage of materials which match the production level, the need for storage space would have reduced leading to lesser warehouse expense.

Employee salaries are also a fixed cost since the employees have to be paid regardless of the number of units sold that day (Basic Financial Accounting, 2021). Following the announcement of Covid 19 restrictions, the managers should have taken faster precautions and reduced the payroll. Other measures which could have led to reduction of salary cost include training employees on different skills and combining roles or departments. Further, the company could have negotiated a cut down with the employees for the hard time. All the measures taken should have looked into the company bottom line and work to ensure it's not impacted negatively (Basic Financial Accounting, 2021). From the books, the company salary expenses read high because the business continued paying the employees as usual despite the lack of sales weighing heavily on the bottom line.

The overhead cost was less compared to the budgeted basically due to the reduced business activity. This is a variable cost which should have changed with changes in sales but it did not (Managerial Accounting, 2020). Consequently, the company lacked another opportunity to lower its costs and boost its profits. Additionally, the insurance cost, which is fixed expenses, had to be paid despite the variation in sales. This cost is necessary for the business had to safeguard its stocks.

Recommendation to Amanas CEO on areas of improvement

To better its performance, Amana ltd. should have eliminated or reduced any cost which did not seem necessary during the pandemic times (Hoare, 2015). For example, the labor cost, warehouse rent, overheads, and contributions. There is several cost cutting strategies which the business can apply successfully. To start with, the business should have effective internal control measures to ensure the resources are not wasted or misused. Most companies have policies in place to control the supply, distribution, storage of the stocks available. The polices ensure that there are standard practices across all the employees and department (Smyth, 2019).

The labor cost is very high and above the budgeted during a time when low sales were recorded. Such could have resulted from poor control measure of human resources. For example, the hourly wage can highly cut on the business bottom line if there is no proper management of employee work and efficiency. This happens because employees could report to work and waste a lot of time due to lack of work planning, or supervision. Eventually, he or she demands the pay at the end of the day even when he has done very little work. Further control measures should be put on production process to ensure only the necessary materials are purchased (Hecht, 2018). The business should monitor its stocks both for the raw materials and the finished goods to reduce on the warehouse space and related expenses like its rent, insurance and salary for the warehouse supervisor (Amit, 1986).

At the same time, Amana needs strategies which will boost its sales upwards. In increasing the sales, the business can apply several strategies like reaching the customers online (Simplilearn, 2021). Since 2020, many customers have made it a norm to shop online and have become more conversant with the services. Additionally, the company has a website which it can upgrade to accommodate more products and customer reach outs. Tapping the online market through the website would increase the customer base and eventually the sales

according to Tracy (2020), the business can apply cost leadership strategy through reduction of its prices to attract more numbers of customers. Considering that the market is still recovering and many customers do not have much money for souvenirs, price cut can go a long way in pulling new customers as well as maintain the old clients. As a result, the move will increase the customer base and its sales as well.

Part B.

Selling Through Amazon Or Its Own Website

The owner of the business, Mr. Amana, has two options to boost its sales. He plans to close three of the hotspot points in order to streamline its business activities. Such will be done through switching half of its sales online following the Covid 19 effects. Such could be a great idea since people are shopping more online today than earlier and the company can benefit largely from the move. To start the online selling, the company can either upgrade its website to the required standard and use it or sell the products through Amazon. Either of the two has some costs to be met which will be analyzed to conclude on the better option. To arrive at the right or more optimal choice, costs will be considered and compared, then the opportunity cost will be calculated and finally the benefits and disadvantages of selling through each platform.

For the online website, Amana ltd. will incur setting of an effective delivery network which would cost £ 150,000. Also, the company needs to upgrade its website to hold more products and operate at the state of heart performance which would cost £ 50,000. The website will further need to be monitored throughout hence needs a full time programmer who will be paid an annual salary of £ 35,000. Excluding the salary, the company will incur the initial cost of £ 200,000, and will have to part with £ 50,000 every year of operations. From its own website, the company expects to record sales of 100,000 units annually.

The alternative option is the Amazon platform through which the company can sale its products and boost its sales. The company will be required to pay Amazon fulfilment fee of £50,000 to start. Also, Amazon charges other fees depending on the units sold. The sales expected from amazon amounts to 65,000 units annually with the potential of increasing.

Opportunity Cost

The company's opportunity cost will be calculated based on the costs and sales expected. Opportunity cost is the comparison of one economic choice to another best choice. The comparison is usually in the economics of finance where business leaders want to decide between investment options (Carlson, 2020). However, the opportunity cost only considers the quantifiable effects since it is hard to quantify factors that cannot be attached values.

Opportunity cost = return on option not chosen - return on chosen option

If the company sales through its own website, the opportunity cost will be = $65,000 - 100,000 = (35,000)$.

On the other hand, if the business decides to sale through Amazon, the opportunity cost = $100,000 - 65,000 = 35,000$.

The calculations above shows that, the business will have more benefits if it upgrades its own website and sales through it than if it chooses to sale through Amazon.

Advantages and disadvantages of selling through Amazon

According to Berry (2020), Amazon remains the largest world e-commerce platform offering reliable platform to companies which are to be professional sellers. The site gives business people the opportunity to reach massive audiences. According to reports, the platform features above 300 million user accounts and over 100 million prime members. Amazon

platform has a lot of audience, and studies show that nine out of ten consumers will check a product on Amazon even if they have visited other online sites. The audience at Amazon have transactional mind-set and are usually looking to buy a product. They research, compare and order when they visit Amazon. Consequently, when one is a seller on Amazon, he or she focuses on people who want to buy (Berry, 2020).

Also, it remains more convenient to use Amazon since it takes care of all the maintenance costs and management activities. As a result, business owners do not have to worry about web hosting and redesigning. The tasks which Amazon relieves the business owners include maintenance of the site amazon.com and seller central, keep the platform and the product lists live and accessible, provide secure shopping, ordering and seller experience, deliver seller payments, and resolve customer issues (Berry, 2020). Further, the business owners can pass on some responsibilities like marketing, advertising, and shipping of orders.

The company will enjoy brand protection if it sales through Amazon. Amazon offers brand registry against knock off and it is easy to report copycat sellers hence a business can easily protect its brand and increase its sales. If Amana goes its way to sale through the website, it will have to monitor and protect its brand by itself.

However, the platform has its own disadvantages which include high competition due to the numerous companies trading on the platform, with similar products and services. Reference to one's industry, there is a high chance of competing with a big number of sellers which can reduce demand for one's business products and further reduce the profits. According to Amana projections, selling on Amazon can only guarantee the business 65, 0000 units due to the stiff competition. The stiff competition on Amazon also leads to price wars (Berry, 2020). As a result, business must set competitive prices if they want to beat their rivals. Such makes

the companies to lose control over pricing strategies. Studies show that, most searchers click on the first three, hence sellers should ensure their products appear among the top three.

There are several costs the business owner will have to meet whenever he or she sales through Amazon. Such costs include seller plan of £0.99 per item sold, referral fee of £0.3 per item, FBA fee and other variable closing fees. Amazon being a rented site has many limitations as compared to one's own website. As a result, the business will have less control over Amazon which can impact its sales (Berry, 2020).

Advantages and disadvantages of Selling through the company's website

Amana ltd. also consider the option of upgrading its website and diverting 50% of its sales to it. Own website also has its pros and cons which include full control of the website. The owners have a total control over the website hence can edit or change any activity which is not fruitful or add data which is beneficial. Also, competition remains zero on the website and the business will control its orders to the end having to interact directly with its own customers. As a result, the company will be able to establish customer loyalty and closer relationship between seller and buyers. It is for such reasons that the company is assured of making at least 100,000 units of sales through the website monthly. When the company has its own website, it can collect data from customers and use it for strategic decision making something which is not possible with Amazon platform (Thomson, 2020). However, the business will manage and cover its own operations and cost to keep the website going.

Recommendation: Amana ltd. would record better sales if it sales through its own website (Hoare, 2015). Such has been evaluated through the different aspects of costs involved, benefits in form of sales and the pros and cons of operating with either of the two options.

Conclusion

The performance of Amana ltd., just like many other businesses in the tourism industry, faced difficult times during the year 2020. Such was attributed by the strike of Covid 19 pandemic which left the industry crippled. Despite that, the business owner is determined to streamline the business and is considering going online either through Amazon or own website. The move will enable the company to gain on its sales and further boost its bottom line. From the different analysis of the two options, the company would scoop more benefits if it upgrades its own website and sales through it than if it sales through Amazon platform.

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