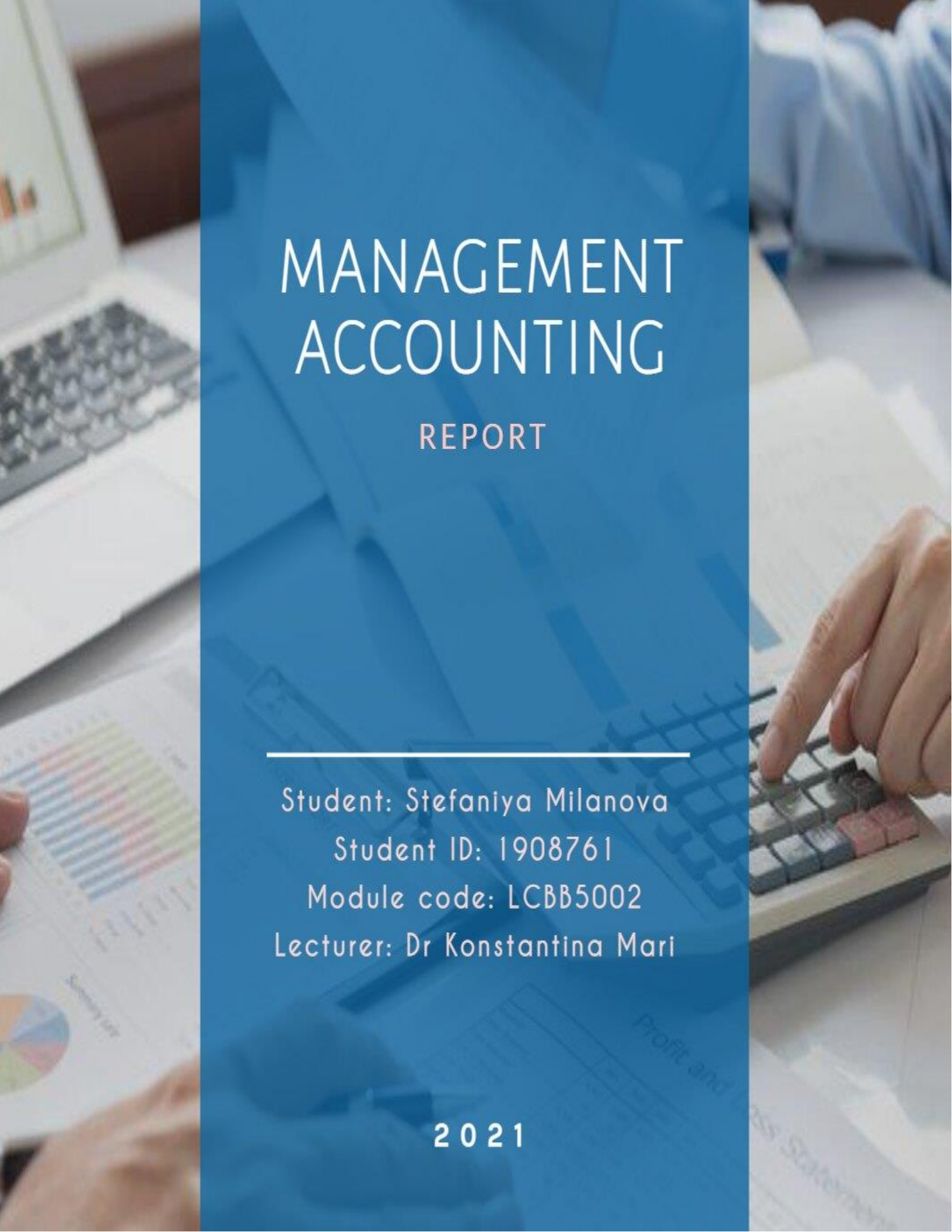




MANAGEMENT ACCOUNTING

REPORT

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1. INTRODUCTION

Management accounting is a branch of accounting. It has an essential role in achieving a company's sustainability by collecting data and providing accurate, relevant, reliable, and timely information for planning and control, and decision making. (Dyson, 2010) Management accounting helps managers evaluate the business's current performance with a budget and actual expenses to see the company's summary situation before taking any managerial decision. (Oncioiu, et al., 2020)

The first part of this report depicts the monthly control report of Amana Ltd with the original budget, flexed budget, and variances. After that, based on the control report is compiled a report for company's performance during the year 2020, and also it will be provided recommendations on areas of improvement. The second part of the report analyzes the decision of the owner of Amana Ltd to move his business online while considering the relevant cost of going for an online business. In the end, the report states advice if the company should sell through its own online shop or sell on Amazon.

2. PART A

Amana Ltd is a successful family-owned tourist company selling souvenirs for 40 years. Until today, the company has operated only through physical stores with a functioning website used as a channel for marketing its business. Due to the Covid-19 pandemic, the government has imposed restrictions on movement and travel, which significantly affected the tourist industry. As a result, in the summer of 2020, Amana's sales slightly increased because the tourists could not travel for the Easter holidays. But because of the extended lockdown in the winter months, all additional revenue made in the summer is spent.

Task 1

To evaluating the current performance of Amana Ltd, it was prepared a monthly control report which includes the original budget, flexed budget, actual cost, and variances in both cases of activity and cost control.

Monthly Control Report

Items	Cost per Unit	Original (£)	Flexed (£)	Actual	Variance
Units		100,000	80,000	80,000	
Selling Price	25	25	25	20	5UF
Revenue		2,500,000	2,000,000	1,600,000	(400,000) UF
Variable cost:					
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	17	1,700,000	1,360,000	760,000	600,000 UF
Fixed Overhead:					
Warehouse rental		200,000	200,000	170,000	30,000 F
Insurance		100,000	100,000	100,000	0
Fulltime warehouse supervisor salary		50,000	50,000	35,000	15,000 F
Profit		1,350,000	1,010,000	455,000	555,000 UF

Task 2

Based on the control report above, it will be analyzed Amana's performance during the year 2020.

Reducing the selling price

The revenue generated by any company is determined by the selling price and quantity sold. (Wang and Brennan, 2014) Amana Ltd control report shows that the selling units decrease. In the original budget, the selling units were 100,000, but in the actual budget, they become 80,000. Therefore, to increase sales and stay competitive on the market, the company reduces the selling price by £5. But this strategy is not sustainable for long-term profitability. (Yan and Wang, 2010)

Increasing the material costs

The control report of the company shows that in the original budget, the cost material was £250,000, and in the actual budget, it becomes £200,000. Therefore, the materials have unfavorable variance with 80,000 increase in actual cost.

Amana Ltd is a product-based business, and material costs are an important part of the company's cost structure. The company must ensure that material costs are monitored appropriately and there is no compromise on quality. (Campi et al., 2020) It will be better if Amana thinks about shifting to a cheaper and reliable supplier.

Decreasing the labour costs

Regarding labor cost stated in Amana Ltd control report, in the original budget, it was £400,00. In the actual budget, it became £320,000, which means it has an unfavorable variance with 120,000 rises in actual cost.

One of the measures that many companies choose to survive the Covid-19 crisis is reducing labour costs instead of making long-term investments in their employees. But when Amana Ltd acts in this direction, it must be considered that the short-term performance of reducing investment in human resource management may decrease employees' happiness and social well-being. (Bailey and Breslin, 2020)

Task 3

Recommendations

Being a tourist company, Mr. Amana faces difficulties while operating his business due to the government's imposed regulations on movement and travelling. However, there is some area of improvement in its cost structure.

- Suppliers

Regarding the increase of material cost, Amana Ltd should make a strategic relationship with the supplier of goods, for example going on a contract with the supplier with a fixed price to manage the price fluctuation in cost material. The company can make vetting on suppliers who provide good quality at a good price. As the business operations have not been normal yet, they can contract with some labor directly, producing the souvenir in a skilled way and fixing their charge through negotiating with them.

- Cutting some of the administrative costs

As Amana Ltd makes less sales, they can consider cutting some administrative costs. The control report shows that overheads incurred as per budget, which means they have incurred this cost even in lockdown. So, Amana Ltd can plan how they can cut overhead costs, at least during the pandemic situation. For example, due to the decrease in sales, there is no need for more stocks to be stocked up. So, for the moment, Amana Ltd can cut warehouse rent expense or low a bit more than the one that is currently.

- Going online

Due to the extraordinary containment measures, most people move to online shopping, home-deliveries or cashless payment. (Eger et al., 2021) That is why Amana Ltd must consider the behaviour of consumers and start to publicity for their products online. By going online, the company has a chance to increase its sales through the current market opportunity.

3. PART B

A lot of the competitors of Amana Ltd moved towards alternative options of doing the business online. The company's owner decided to reorganize the business activities by closing three branches and relocating 50% of their sales online. The company has a website already, but because it is only used as a channel for marketing, it should consider using its own online shop or using Amazon to sell and advertise its products. Establishing a store on the Internet is an excellent opportunity for Amana to enlarge its market and reach out to consumers who may not otherwise visit the physical store. (Gupta et al., 2013)

Task 1

Launching own online shop

In addition to the mentioned variable cost and fixed costs, the company will incur a cost of delivery, upgrading the network, salary of IT programmer, and using its own website to sell products.

- Cost-benefit analysis

(Actual amount of cost will be considered in case of variable cost and fixed cost)

Total variable cost:

$$\text{Materials} = (280,000/80,000) = 3.5$$

$$\text{Labor} = (440,000/80,000) = 5.5$$

$$\text{Overhead} = (120,000/80,000) = \underline{1.5}$$

$$\underline{\underline{10.5}}$$

Total Fixed cost

$$\text{Rent} = \text{£}170,000$$

$$\text{Insurance} = \text{£}100,000$$

$$\text{Supervisor salary} = \text{£}35,000$$

Cost of set up delivery network = £150,000

Cost of upgrading current website = £50,000

Salary of IT programmer = £35,000

Total fixed cost = £540,000

Total cost = 540,000 + (100,000*10.5) = £1,590,000

Total Revenue = (100,000*20) = £2,000,000.

If we consider the previously fixed costs included in the new online business, it can be seen that the cost is very high. Also, if we assume that rent cost, supervisor salary is related to those branches that will be shut down, then the fixed cost will be $(1,590,000 - 170,000 - 35,000) = 1,385,000$.

So, if we consider all the fixed costs included, then the total benefit from this option will be **410,000** $(2,000,000 - 1,590,000)$, and if we consider the salary and warehouse rent of those branches, then the benefit will be **615,000** $(2,000,000 - 1,385,000)$.

- Cost-Volume-Profit analysis

In this analysis, if we consider that rent and salary are related to Brighton, Birmingham, and Manchester, then in our Cost-Volume-Profit analysis, these costs will be excluded.

Total variable cost per unit = 10.5

Total Fixed Cost = 335,000

Total selling price per unit = 20.

$BEP = \text{Fixed cost} / (SP - VP) = 335,000 / (20 - 10.5) = 35,263 \text{ (unit)}$

Therefore, if Amana Ltd wants to pay all of its costs, it must sell 35,263 units. Based on the market research, in case the company goes for online business, it can sell 100,000 annually. So, from this option the contribution margin unit will be 64,737 $(100,000 - 35,263)$ and the amount will be 6,15,000 $(64,737 * 9.5)$.

Task 2

Selling on Amazon

Amana Souvenir has another option to go online by using Amazon. Salary and rent will be analyzed as relevant costs without considering them as relevant.

- Cost-benefit analysis

Total Variable cost = 10.5

Total Fixed cost

Fulfillment fees = £50,000

Insurance = £100,000

Total Fixed cost = **£150,000**

Total Revenue = 65,000*20 = £1,300,000

Total benefit = (1 300,000 – 150,000) = £1,150,000.

The above cost-benefit analysis shows that if we consider only two fixed costs, there will be 1,150,000 profit. If we consider those two costs, then the benefit will be (1,300,000-150,000-170,000-35,000) = 945,000. So, if we consider the costs as relevant (salary and rent), then there will be produced 945,000 profit.

- Cost-Volume-Profit analysis

Total fixed cost = £150,000 (without rent and salary)

Total variable cost per unit = 10.5

Total Selling price per unit = 20

BEP = 150,000/ (20-10.5) = £15,789 units.

Therefore, if Amana Ltd chooses this option, its contribution margin unit will be $(65,000 - 15,789) = 49,211$ units. If those two costs are considered then, $BEP = 355,000 / 9.5 = 37,368$ units. So, contribution margin units are 27,632 units.

Task 3

The COVID-19 pandemic moved almost all sales online, often to self-service digital platforms. On the one hand, the sellers appreciated this new market trend because of the greater effectiveness. (McKinsey & Company, 2020a) On the other hand, buyers say that they prefer digital interactions because of many reasons – because it saves time, the ability to shop 24/7 and to compare the prices, avoiding the crowd, convenience to stay at home, the ability to buy outside their countries, etc. (Chaffey, 2017)

There are numerous pros and cons to selling on own online store vs. on the Amazon platform. It will be listed below some of the main pros and cons factors that can help Amana Ltd decide where to sell online.

Selling on own online shop - Pros

- Brand voice and customer Loyalty

Selling through your own online shop, customers will refer to the company brand. Also, chances of repeat purchases are much higher for brands that build loyal customers. (Bellavix.com, 2021)

Competition

Unlike the big competition on Amazon's platform, if Amana chooses to sell through its own online store, it will eliminate the competitors who operate on Amazon. Having your customers will give you full advantage of digital marketing.

- Management

If you sell on your own online shop, it will give you flexibility and freedom to manage it in your own approach and manner. (Su, 2017)

When you create your online shop, it is your responsibility to maintain and manage the website. You have total control over every operation, and the upgrades on your website could attract people to the products. (Danziger, 2018)

Selling on own website – Cons

- Product visibility

Because Amazon operates millions of sellers, when you use own online shop, the chance of your product visibility will be diminished significantly. For example, compared to Google, which has a huge audience, approximately 60% of buyers start searching for their purchases on Amazon. (Bellavix.com, 2021)

- Costs

If Amana Ltd set up an own online shop, it would require a higher fixed cost. Because the company operates through physical shops, there are no online instruments to start with. You have to hire qualified and knowledgeable people to keep your website optimized and your business successful. (Bellavix.com, 2021) Moreover, to increase demand additionally in the market, the company may incur advertisement costs. (Su, 2017)

- Returns/Customer Support.

The Amazon Prime shoppers use free returns, two-day shipping, and the ability to contact a customer service rep 24/7. (Bellavix.com, 2021)

Selling on Amazon – Pros

- Costs

Using the Amazon's online platform will incur less cost and low sales volume than if Amana decides to use own online store. However, the benefit is high compared to selling on your online store.

- Product visibility

When you are listing your products on Amazon, this sets your products in front of millions of buyers. Amazon has a product cataloging system that allows you to optimize and categorize your products so they are shown to consumers with the most appropriate search queries. (Bellavix.com, 2021)

- Management

For many businesses, selling on Amazon is much easier compared to selling on their own online stores. Amazon facilitates the eCommerce site by taking care of all the maintenance, management, and costs. This platform is suitable mainly for those companies that sell unique products. (Danziger, 2018) The significant advantage when you sell on Amazon is that Amazon gives you access to the whole customer base. (Su, 2017)

Selling on Amazon – Cons

- Costs

Amazon's commissions increase in direct proportion to the growth of the business. In addition, the demands for free delivery cut into profit margins. Moreover, continuously growing competition on Amazon itself are forcing sellers to market down prices even further, affecting the profit. (Danziger, 2018)

- Management

If Amama Ltd uses the Amazon platform, one of the main disadvantages is that Amana will not control its pricing system as Amazon will control that. The company can not specify the return system. Amana has to follow the return policy of Amazon, which may, in turn, will not be feasible for Amana. (Bellavix.com, 2021) Also, there is a potential threat for conscienceless sellers to steal your listings and use your marketing to bring attention to their products. (Danziger, 2018)

- Competition

In the Amazon marketplace, there are around 10 million small and medium businesses selling their products worldwide. Every year more than a million new sellers join Amazon.

(Marketplacepulse.com, 2021) If Amana chooses the option of selling on Amazon, the company will face severe rivalry. Also, the company must come up with unique products to compete with the competitors. It is very likely thousands of other sellers to sell in the same product category competing with its business. (Bellavix.com, 2021)

- Low control

According to the Amazon's rules, Amazon has complete control of your listings, removing listings, content or even could remove the entire product catalog. (Bellavix.com, 2021) Also, when people buy your product, they will always be considered Amazon customers. This Amazon policy hinders sellers from building a relationship with buyers. (Su, 2017) Furthermore, if you violate the Amazon's policies, they could close your selling account. Then it could be hard or even impossible to restore the account. (Danziger, 2018)

Analyzing some of the main pros and cons and considering all relevant costs, it can be assumed that for the long-term success of Amana Ltd will be more suitable to sell its products through own online shop. Although the additional costs could be made and the lack of online instruments to start, the company will avoid the uncertainty of the Amazon's rules and policies by having complete permission on its business. Also, Amana operates successfully for 40 years, suggesting that the company established trust in the brand and a good relationship with its customers, making the company competitive in the tourism industry and beneficial in attracting new customers.

5. CONCLUSION

The Covid-19 pandemic has a catastrophic impact on society, economics, health systems, and governments worldwide. While the world is turned upside down, all industries are forced to adapt and manage their businesses according to this extraordinary and uncertain situation. The capability to adapt to changes is vital. Depending on how the companies respond to these changes and whether they see the new opportunities that the Covid-19 crisis creates will determine their future. (Weforum.org, 2020) As a result, many businesses started to use innovative ways to provide their product and services and engage with customers by implementing an appropriate digital strategy and shifting to online channels. (McKinsey & Company, 2020b)

Due to the impact of the Covid-19 pandemic, Amana Ltd also faced challenges. Decisions that the owner makes will predetermine the position of the company for years to come. In order to deal with the consequences of the crisis, his ability to do business online is crucial. His business needs a strong online presence and a reliable supply chain.

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