

Management Accounting

Assignment 2



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Management accounting – LCBB5002

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1. Introduction

Management accounting is the subfield of accounting that focuses on providing information and the approach that it employs is aimed at supplying users with information regarding their own internal businesses. Accounting data is utilised by users in the context of the planning and management of each company activity in order to arrive at a reasonable conclusion and select the most appropriate action. Management accounting is the process of determining, measuring, evaluating, displaying, and reporting the information that is necessary for a company to accomplish its objectives (Ragazou, 2021).

2. Part A

2.1. Monthly control report with original budget, flexed budget and variances

Management reporting is an instrument that managers use to keep track of the results of their company and to make choices based on accurate information. The top executives and leaders of the company can utilise these reports, which contain information on financial and operational matters, to monitor the progress of the firm and make choices on its strategic direction. They offer insights into the functioning of the organisation as a whole, assisting decision-makers in increasing efficiency and maintaining a competitive edge (Calzon, 2022).

Items	Cost per unit (£)	Original budget (£)	Flexed budget (£)	Actual cost (£)	Variance (flexed-actual)
Units		100,000	80,000	80,000	
Selling price	25	25	25	20	5 UF
Revenue		2,500,000	2,000,000	1,600,000	(400,000) UF
Variable costs:					
Materials	2.5	250,000	200,000	280,000	(80,000) UF
Labour	4	400,000	320,000	440,000	(120,000) UF
Overhead	1.5	150,000	120,000	120,000	0
Contribution	17	1,700,000	1,360,000	760,000	(600,000) UF
Fixed overheads:					
Warehouse rental		200,000	200,000	170,000	30,000 F
Insurance		100,000	100,000	100,000	0
Fulltime supervisor salary		50,000	50,000	35,000	15,000 F
Profit		1,350,000	1,010,000	455,000	555,000 UF

F = Favorable

UF = Unfavorable

Workings:

	Original budget	Flexed budget
Revenue	$25 \times 100,000 = 2,500,000$	$35 \times 80,000 = 2,800,000$
Materials	$2,5 \times 100,000 = 250,000$	$2,5 \times 80,000 = 200,000$
Labour	$4 \times 100,000 = 400,000$	$4 \times 80,000 = 320,000$
Overhead	$1,5 \times 100,000 = 150,000$	$1,5 \times 80,000 = 120,000$
Contribution	$17 \times 100,000 = 1,700,000$	$17 \times 80,000 = 1,360,000$

Profit = Contribution - Total fixed overheads

2.2. Amana's performance report for 2020

According to Anthony (1965), performance may be broken down into two primary categories: efficiency and effectiveness. Efficiency is the relationship between inputs and outputs; better efficiency is shown by a bigger volume of outputs from a given quantity of inputs. In other words, the more outputs you get from a certain amount of inputs, the more efficient your system is. The degree to which the intended results are realised is what is meant by the term "effectiveness."

Performance is important for several reasons. One key reason is that it allows organizations to measure and evaluate the success of their operations and strategies. By assessing performance, organizations can identify areas that are working well and areas that need improvement. Additionally, performance measurement can help organizations to allocate resources more effectively and make data-driven decisions. Good performance can also lead to increased productivity, profitability and competitiveness. Furthermore, performance measurement can also be used to assess the progress of an organization toward achieving its goals and objectives and to evaluate the overall effectiveness of the organization (AccountingTools, Inc., 2022).

The industry of tourism that comes from outside the country has been severely damaged by Covid-19. The United Kingdom saw 11.1 million foreign tourists arrive in 2020, who collectively spent £6.2 billion. This is a decrease of 73% in visits and 78% in spending compared to 2019, which results in a loss of £22.2 billion for the economy of the United Kingdom (Knight, 2022).

Despite being hit hard by the Covid-19 epidemic, Amana Ltd. nevertheless managed to achieve a positive outcome in the end. Comparing the original budget, flexible budget, actual costs and variances will provide valuable insight into the organization's

performance and help identify any areas where adjustments may be necessary. It is a good practice to keep track of these numbers and evaluate them on a regular basis. Although they had hoped to sell 100,000 units, they only managed to sell 80,000; this, along with a drop in the selling price from £25.00 to £20.00 for each unit, resulted in a decrease in revenue and an unfavourable variance of £400,000 between actual and the flexed budget.

They were successful in keeping the variable overhead costs under control, but they were unable to do so with the materials, which saw an increase from £200,000 to £280,000, and the labour, which resulted in an unfavourable variance of £120,000 by increasing from £320,000 on the flexible budget to £440,000 on the actual costs. Overall, this resulted in a loss of £600,000, bringing the contribution down from £1,360,000 to £760,000.

Amana Ltd. was successful in reducing the amount spent on fixed overheads. This was accomplished by reducing the warehouse rent from £200,000 to £170,000, resulting in a favourable impact of £30,000 and by reducing the salary paid to the full-time supervisor from £50,000 to £35,000. Both of these reductions had an effect on the actual cost of the business.

In the end, both the flexible budget plan and the actual costs result in a profit. If they had stuck to the original budget despite the lower number of units that were sold as a result of the COVID-19 epidemic, they should have had a profit of £1,010,000. However, they were only able to make a profit of £455,000, which resulted in a loss of £555,000, between the flexed budget and actual costs.

Profit is an indicator of a company's financial performance and is typically represented as revenue minus expenses. It is an indicator of the company's ability to generate income and is a key metric used to assess a business's financial health. Profit is important for the company, as it allows it to invest in growth, improve operations, and reward shareholders. Additionally, a profitable company is better positioned to provide benefits to the wider community, such as through charitable contributions, job creation, and economic development. Therefore, in general, profit is seen as a positive outcome for both the company and its stakeholders (Puspitaningtyas, Toha and Prakoso, 2018).

2.3. Recommendations for Amana's CEO

Amana Ltd. is a family-owned business that sells souvenirs to travellers in major tourist locations throughout England such as Brighton, London Bridge, Buckingham Palace

and many others locations. These locations are among those that are still partially impacted by the restrictions that the government places on movement and travel.

To improve the business situation, certain recommendations have been made based on the travel regulations and the report from the preceding section:

- Amana Ltd. needs to take action to lower its expenses of materials, labour, and variable overheads in order to decrease its variable costs. One approach to do this would be to negotiate better pricing with the various suppliers, increase the efficiency of the production processes or identify ways to minimise the expenses of labour.
- Increase the selling price: If Amana Ltd. wants to see an increase in income, the company should think about raising the selling price of its products. This might be accomplished by increasing the product's quality or by distinguishing it from similar offerings from other companies in the market.
- Increase company sales: If Amana's CEO wants to see an increase in income, they need to focus on expanding their sales. Increasing marketing efforts, upgrading the packaging and appearance of the product, or developing a new sales strategy are all potential ways to accomplish this aim.
- Monitor performance: Amana's CEO has to maintain a close eye on its performance on a regular basis in comparison to its budget in order to promptly detect and rectify any problems that may develop.
- Create an online presence: Amana Ltd. should build a strong online presence by establishing social media accounts, establishing a blog, and connecting with clients on online forums and review sites. This will provide Amana with a competitive edge in the marketplace.
- Develop an e-commerce platform: Amana Ltd. Should think about spending money on the construction of an e-commerce platform that will enable clients to purchase items straight from the website of the firm. Amana will be able to expand their consumer base as a result of this, which will lead to increased sales.

The Covid-19 pandemic has caused significant changes to the business environment, and it is important for Amana Ltd to adapt its strategies in order to match the ever-evolving requirements of its customers and the marketplace which can mean that should look on embracing the e-commerce and digital platforms, to be flexible and responsive to changes and monitor the performance on the regular basis.

3. Part B

The COVID-19 pandemic has had a significant impact on global society and economy, leading to changes in habits and lifestyle as well as an acceleration of the digitization of various industries. Social distancing measures have resulted in an increased reliance on technology and online platforms for communication, commerce, and remote work. This has led to a shift towards digital forms of interaction and an acceleration of pre-existing trends towards online business models and remote work. The COVID-19 epidemic has required a great number of businesses to make quick adjustments to their operational plans in order to adjust to the new conditions. This includes the revision of company procedures as well as the creation of goods and services that are adapted to the shifting patterns of client behaviour. Many companies have shifted towards electronic commerce in order to continue to reach and serve customers while physical stores and other traditional sales channels were closed or limited. This has led to an increase in online sales, and many companies have expanded their investments in online channels such as e-commerce websites, social media, and digital marketing (Ilieva et al., 2022).

These changes have been particularly significant for businesses in sectors such as retail, hospitality, and travel, which have been heavily impacted by the pandemic.

When you take into account the fact that Amana Ltd. does not have a strong presence online and the fact that Covid-19 lowered sales, it is a wise option to transfer 50% of the sales online and explore shutting a few shops.

3.1. Amana's option 1

The first option for Amana Ltd is to build its own e-commerce website and delivery network. This option would provide the business more power over pricing and return policy, in addition to ensuring yearly sales of at least 100,000 units. However, it also involves higher costs such as the cost of creating a delivery network (£150,000), the cost of upgrading the existing website to be able to process a high volume of sales (£50,000), and the annual salary of a full-time IT programmer (£35,000).

Building its own e-commerce website and the delivery network would also give Amana Ltd the opportunity to have a direct relationship with customers and to create a unique brand experience. Additionally, it would also give Amana Ltd more control over the customer data and insights that can be used for future business decisions.

To make this decision, it would be important for Amana Ltd to carefully consider the cost-benefit analysis, market research, and the company's long-term goals. Factors such as the target market, competition, and the company's financial position should also be taken into consideration.

Cost-benefit analysis:

Amana will make in the first year £610,000, as shown in the below report. From this amount, they will deduct the cost for the website upgrade (£50,000) and the cost for the delivery network (£150,000), leaving them with £410,000 (£610,000-£50,000-£150,000) profit and they will continue with £610,000 once the initial investment is no longer required.

Items	Cost per unit (£)	Actual costs (£)	Amana's e-commerce year 1 (£)	Amana's e-commerce year 2 (£)
Units		80,000	100,000	100,000
Selling price		20	20	20
Revenue		1,600,000	2,000,000	2,000,000
Variable costs:	10.50			
Materials	3.50	280,000	350,000	350,000
Labour	5.50	440,000	550,000	550,000
Overhead	1.50	120,000	150,000	150,000
Contribution	9.50	760,000	950,000	950,000
Fixed overheads:				
Warehouse rental		170,000	170,000	170,000
Insurance		100,000	100,000	100,000
Fulltime IT programmer			35,000	35,000
Fulltime supervisor salary		35,000	35,000	35,000
Profit		455,000	610,000	610,000

3.2. Amana's option 2

Alternatively, Mr Amana could consider selling their products directly on Amazon. The fees charged by Amazon for fulfilling orders are the primary expenses that must be taken into account in this case, which are £50,000 per annum, and the tough competition between Amana products and other sellers on this channel. This option, on the other hand, would provide annual sales of 65,000 units, with the possibility to rise according to demand.

Cost-benefit analysis:

Taking into consideration that the selling price will remain the same with the first option when selling on Amazon, Amana is expecting to sell 65,000 units at a selling price of

£20 per unit, resulting in a revenue of £1,300,000. The variable costs for materials, labour, and overhead would total £685,000, resulting in a contribution of £617,500. Fixed overheads such as warehouse rental, insurance, Amazon fulfilment fees, and a full-time supervisor salary would total £300,000, resulting in a profit of £217,500.

Items	Cost per unit (£)	Actual costs (£)	Amazon year 1 (£)	Amazon year 2 (£)
Units		80,000	65,000	65,000
Selling price		20	20	20
Revenue		1,600,000	1,300,000	1,300,000
Variable costs:	10.50			
Materials	3.50	280,000	227,500	227,500
Labour	5.50	440,000	357,500	357,500
Overhead	1.50	120,000	97,500	97,500
Contribution	9.50	760,000	617,500	617,500
Fixed overheads:				
Warehouse rental		170,000	200,000	200,000
Insurance		100,000	100,000	100,000
Amazon fulfilment fees			50,000	50,000
Fulltime supervisor salary		35,000	50,000	50,000
Profit		455,000	217,500	217,500

3.3. Recommendation

Selling online and closing physical branches has the potential to increase revenue through increased online sales, but also incurs significant costs for setting up a delivery network and upgrading the website. Additionally, hiring a full-time IT programmer will also incur ongoing salary expenses.

Amana Ltd would be able to establish a more personal connection with its clients and craft a more memorable brand experience by developing its own e-commerce website and delivery network. In addition, it would provide Amana Ltd with further discretion over consumer information and insights for strategic planning purposes.

Selling on Amazon has lower upfront costs, but also has a lower guaranteed sales potential and less control over pricing and return policy. Additionally, the high levels of competition on the platform may make it more difficult for Amana to stand out.

It may be beneficial to consider a hybrid approach, where Amana uses Amazon as a sales channel but also uses the data and insights gained from the sales on Amazon to improve its own website and delivery network but building its own e-commerce website and delivery network is the most viable option for Amana Ltd, as it would provide a strong foundation for the company's future and support its 40 years of

successful operation. According to the cost-benefit analysis, it would generate more profit and even after the initial investment, the profit will continue to be £610,000, which is higher than the profit generated by selling on Amazon.

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