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Introduction

A discipline of accounting in which managers examine their present condition in relation to their actual and budgeted costs in order to view the summary status of their organization before making any managerial decisions is considered as management accounting (Hansen and Mowen, 2018). The initial budget, the flexible budget, and the actual costs, as well as the deviations between them, of Mr Amana's tourism business, have all been examined in this report. An analysis will be carried out in the first portion of the report, and a complete report based on the analysis will be created later. Mr. Amana will also be presented with some possible recommendations in the next part of the report. An in-depth study of Mr. Amana's choice to enter the online business world will be provided in the second half of the research, which will also take into account the associated costs of doing business online.

Part A

Monthly control report for Amana Ltd

A management reporting system is a component of a planning and control system that delivers details on the company's operations. This information might be presented in the form of statements or reports. The system is meant to help management people by delivering timely and relevant data.

The monthly control report is a financial statement that highlights the performance of a company over a given period of time, usually a month (Atkinson, Kaplan, Matsumura and Young, 2012). It consists of revenue, expenditures, profit/loss statistics, as well as a break-even level for each item or service that is being sold. Additional to this, the report provides a comparative analysis of actual results to budgeted figures, highlighting any situations in which actual results differed from those expected in the budget (Horngren et al., 2014). The management team will be able to identify and solve concerns and prospects more quickly as a result of this process.

Amana Ltd

Monthly control report

Particular	Original budget (1)	Flexible budget (2)	Actual cost (3)	Activity variance (1-2)	Cost Variance (2-3)
<u>Units</u>	<u>100,000</u>	<u>80,000</u>	<u>80,000</u>		
<u>Variable cost</u>					
Materials (Note 1)	250,000	200,000	280,000	50,000 (F)	(80,000) (U)
Labour (Note 2)	400,000	320,000	440,000	80,000 (F)	(120,000) (U)
Overhead (Note 3)	150,000	120,000	120,000	30,000 (F)	-

	800,000	640,000	840,000	<u>160,000 (F)</u>	<u>(200,000)</u> <u>(U)</u>
<u>Fixed cost</u>					
Warehouse rent	200,000	200,000	170,000	-	30,000 (F)
Insurance	100,000	100,000	100,000	-	-
Supervisor salary	<u>50,000</u>	<u>50,000</u>	<u>35,000</u>	-	<u>15,000 (F)</u>
	350,000	350,000	305,000	-	<u>45,000 (F)</u>
Total overhead cost	<u>1,150,000</u>	<u>990,000</u>	<u>1,145,000</u>	<u>160,000</u> <u>(F)</u>	<u>155,000</u> <u>(U)</u>

Here, F = Favourable

U = Unfavourable

Notes:

1: Materials cost

Original budget = $(100,000 \times 2.50)$
= 250,000.

Flexible budget = $(80,000 \times 2.50)$
= 200,000.

2: Labour

Original budget = $(100,000 \times 4)$
= 400,000.

Flexible budget = $(80,000 \times 4)$
= 320,000.

3: Overhead

Original budget = $(100,000 \times 1.50)$
= 150,000.

$$\begin{aligned}\text{Flexible budget} &= (80,000 \times 1.50) \times \\ &= 120,000.\end{aligned}$$

A report on the performance of Amana

Amana Ltd. is going through a difficult year right now. When it comes to responding to the Covid-19 epidemic, there have been restrictions placed on movement and travel, which has ultimately resulted in a decline in sales (Hwang, Nageswaran and Cho, 2020). Despite the fact that Amana Ltd. predicts sales of £100,000, after subtracting various expenses, the company's income is only £80,000, which falls short of the company's expectations. Despite the fact that their selling prices have fallen by 20%, from £25 to £20 per unit, they are still suffering considerable unit cost increases as a result of increased material and labour costs. The expense of running a firm has increased by ten per cent. Since the company's storage rent has stayed constant, the only fixed expense that has grown is its insurance premiums, which have climbed from £100,000 to £170,000 as a result of the increase in insurance premium rates. Despite the fact that they were able to sell souvenirs at a lower price while maintaining the same amount of sales, they did not. According to the findings, the overall quality of Amana's work was worse than expected. Prices have increased, but costs have not fallen in step with them. Fixed costs have been brought down to a level that is within the company's financial capabilities. It has been discovered that there is a general lack of financial viability.

Amana Ltd. is not perceived to be as successful in the present year as it has been in prior years, and as a result, the firm will re-evaluate its expenses and revenue structure in the next years. Amana Ltd. should concentrate a greater emphasis on sales and earnings rather than marketing themselves in connection to certain industries such as tourism, according to the company. In order to lower expenses, the company should reduce unit costs and explore alternative suppliers of components and raw materials. The company may have to lower the prices of all of its products if they want to keep consumers coming back to buy their souvenirs. Amana Ltd. is now selling souvenirs for £20 a unit; however, it is projected that the price will rise to £25 per unit in the future, according to industry forecasts, in the near future. A large loss of £760 000 is suffered as a result, causing the firm to go into liquidation. The most prominent factors contributing to this loss were an increase in material and labour costs, as well as an increase in overhead costs. When it comes to recouping these losses, Amana Ltd. should focus on expanding demand for its products rather than positioning itself according to certain industries, such as tourism. In order to compete, the corporation needs to

cut its unit pricing and explore other suppliers of components and supplies (Liguori and Pittz, 2020). When it comes to maintaining a successful souvenir business, Amana Ltd. could have to reduce expenditures across the board. However, it may consider growing into other sectors in order to produce a variety of various types of revenue. Although the Covid-19 epidemic has had a detrimental influence on the tourist industry in general and Amana Ltd. in particular, there is still hope for the future of Amana Ltd. under the condition that they make the appropriate adjustments.

Recommendations for the areas of improvement

Mr. Amana, who owns and operates a firm in the tourism industry, is experiencing some challenges in running his business as a result of government regulations regarding travel. However, there is room for improvement in the company's cost structure. Several suggestions have been made in light of the report discussed in the preceding section:

- This organization's material costs have gone up. Because they are in the business of selling tourist souvenirs, they require a variety of things that may be sold in addition to the materials used to create such souvenirs. They should establish a strategic connection with the provider of products, for example, by entering into an agreement with the provider at a set price so that they can control the variation in the price of raw materials.
- They can immediately contract with some workers who can create the souvenir in a skilful manner and set their rates by negotiating with them, as the business activities have not yet reached their typical levels.
- Overhead costs include certain administrative expenses as well as selling expenses (Rajasekaran and Lalitha, 2011). Since they are generating fewer sales, they may minimize their operating expenses by eliminating certain administrative costs. Amana Ltd's overheads have been incurred in accordance with the budget, which indicates that they have incurred this expense even when the company is under lockdown. Consequently, they may devise a strategy for reducing their overhead costs, at the very least during a pandemic crisis.
- The warehouse rent might be reduced in this circumstance as well. Because of the decline in sales, it is not necessary to stock up on more supplies. Consequently, in the current scenario, the company may be able to reduce this rental expenditure or reduce it by a small amount more than it is already.

- They should make every effort to enhance their sales by taking advantage of the present market potential of going online. People are growing bored while on lockdown, and they want to decorate their homes or acquire items that would improve the attractiveness of their homes while they are on lockdown (Machová, Korcsmáros, Esseová and Marča, 2021). As a result, they should begin advertising their items on the internet.

Part B

The decision to trade online and the best way to sell online

After becoming infected by the pandemic, the tourist sector, like other industries, has begun to consider new modes of operation for its businesses (Kursan Milaković, 2021). Competitors of this business have also shifted their focus to other methods of conducting business on the internet, whether for selling or marketing purposes in order to capture the attention of clients. This firm may also conduct business online, and it has two options for doing so. This business has a single website, which is just used for communication activities and not for any other reasons at this time. In order to sell and market its items online, the organization can create its own web-based business site or use Amazon to promote and sell its goods. But it is important to look at the costs and benefits of each of the two possibilities before making a decision on which one to choose.

Option 1

In addition to the previously indicated fixed and variable expenses, the business will incur expenditures for delivery, network upgrades, and the pay of an IT developer if it chooses to sell items through its own website rather than through third-party websites.

Cost-benefit analysis

Variable cost:

Particulars	Calculation	Amount
Materials	280,000/80,000	3.5
Labour	440,000/80,000	5.5
Overhead	120,000/80,000	<u>1.5</u>
Total		10.5

Fixed Cost

Particular	Amount
Rent	170,000
Insurance	100,000
Supervisor salary	35,000
Cost of setting up a delivery network	150,000

Cost of upgrading the current website	50,000
Salary of IT programmer	<u>35,000</u>
Total fixed cost	540,000

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

Total Revenue = (100,000*20) = 2000,000.

As a result, when the prior fixed expenses are taken into account, the cost of starting an internet business is quite expensive. Assuming, for example, that rent costs and supervisor salaries are associated with the branches that are scheduled to close down, will result in a total fixed cost of 1,590,000-170,000-35,000, which is equal to 1385,000.

If all of the fixed costs are taken into consideration, the overall advantage from this choice will be (2000,000-1590,000) = 410,000, and if only wage and warehouse rent for those locations are taken into consideration, then the total benefit from this decision will be (2000,000-1385,000) = 615,000.

Cost-Volume-Profit analysis

In this research, it is assumed that rent and wages are connected to the cities of Brighton, Birmingham, and Manchester. As a result, these expenditures will be removed from the CVP analysis.

Total variable cost per unit= 10.5

Total Fixed Cost = 335,000

Total selling price per unit = 20.

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

So, if Amana Ltd decided to cover all of its expenses, it must have sold 35,263 units, and if it decides to get into online business after conducting market research, it may expect to sell 100,000 units per annum. As a result, the contribution margin unit would be (100,000-35,263) = 64,737 unit and the overall amount will be (64,737*9.5) = 615,000 with this option. Several points can be drawn from Option 1:

- According to the market condition, Amana souvenir may sell 100,000 copies online if it utilizes its own website, which is assumed to be the case. As a result of the cost-benefit analysis, payroll and rent expenditures have been excluded since Amana would close three of its branches if it chooses to do business online, and it has been presumed that these expenses are associated with the closure of those three branches.
- Only the expenses that are important may be considered, and it can be shown that Amana can generate a profit from this choice after covering all of its expenditures.

Option 2

Cost-benefit analysis

Particulars	Amount
Total Variable cost	10.5
Total Fixed cost	
Fulfilment fees	50,000
Insurance	<u>100,000</u>
Total Fixed cost	150,000

Total Revenue = $65000 \times 20 = 1300,000$

Net profit = $(1300,000 - 150,000) = 1150,000$

It has been determined from the cost-benefit analysis shown above that if just two fixed costs are included, a profit of 1150,000 will be generated. If those two expenditures are taken into consideration, the benefit will be $(1300,000 - 150,000 - 170,000 - 35,000) = 945,000$.

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

$$\begin{aligned} \text{BEP} &= 150,000 / (20 - 10.5) \\ &= 15,789 \text{ units} \end{aligned}$$

Amana's contribution margin unit will be $(65,000 - 15789) = 49,211$ units if they choose to adopt this option. If those two expenses are taken into consideration, the total cost is

$$\text{BEP} = 355,000/9.5$$

$$= 37,368 \text{ units.}$$

As a result, the contribution margin units total 27,632 units.

There are a few things to keep in mind while considering this option:

- Amana must compete with a number of competitors on Amazon, and in order to compete in this market, it must introduce a number of new items.
- Amazon is an online market where users may choose, select, and overlook what they want to buy or sell (Li and Ai, 2019). As a result, if Amana does not offer differentiated goods, it will be unable to compete with its competitors.
- Sales will rise as a result of increased demand in the market; therefore, in order to raise demand in the market, they may pay greater advertising costs. And, in order to distinguish itself from the mass, its labour costs should be high.
- Due to Amazon's influence over the price structure, Amana will have little control over it. Additionally, Amana would be required to adhere to Amazon's return policy, which may be prohibitively expensive for the company.

Recommendation

Option 1 has a greater fixed cost since Amana will have to develop its own online business, which will result in a higher overall cost. Due to the fact that it is a physical store, it does not have any online methods, to begin with. As a result, all costs associated with the task, from hiring an IT specialist to updating the system, will be borne. It will incur less expense and have a lower number of sales if it uses Amazon as its online platform instead of its own website, but the benefit will be greater when compared to option 1. Using Amazon as an online platform will save money.

The primary disadvantage of option 2 is that the company will lose power over its price structure, as well as the ability to establish the return system. Additionally, in the Amazon marketplace, they will face intense competition (Lai, Liu and Xiao, 2018). Option 1 will, on the other hand, have a larger cost, but this will result in a higher sales volume, and some costs, such as upgrading costs and shipping costs, will be reduced later. However, this option will be more beneficial to the organization in the long run. Even once the COVID scenario has been resolved, they can continue to offer this service to the public, both offline and online. Furthermore, they will have complete control over every aspect of the business, and

the new modification to the website may draw more customers to the items. As a result, option 1 is recommended for Amana Souvenir since it has a promising future and may benefit the company in the long run. It will also improve their operational abilities while simultaneously increasing their market share in the business.

Conclusion

According to the conclusions of this paper, management accounting is a critical component of any firm. It assists the organization in keeping track of their financial status and making rational decisions that would benefit them in boosting their earnings and revenues. Using a variety of tools and procedures, management accountants acquire financial data and analyse it, which they then use to give information and ideas to corporate leaders.

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