LCBB5002

Management Accounting

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Introduction

The report is based on Amana Ltd., a tourism-based firm that sells souvenir items to travelers that visit its business region. The tourism business has suffered a setback as a result of the Covid-19 impact (Bondarenko and Dugienko, 2020). The burden on Amana ltd. is likewise not lifted. The report necessitates a comparison of the company's actual and budgeted income, as well as an understanding of the company's flexible budget. The first section of the report contains an in-depth examination of the company's current state and recommendations for how to improve it. The report's second section will go through the advantages and relevance of a company getting online in this digital age. The paper also discusses the challenges that a company may encounter on Amazon. Finally, Mr. Amana has been given an assessment of whether he should go online or sell on Amazon.

Part A

Requirement (i)

The original budget is the original amount of money that was expected to be spent for a month. A positive variance is favourable and means that actual costs were less than the original budget (Thomas, 2016). A negative variance is unfavourable and means that actual costs were more than the original budget to complete a task. The original budget column contains the original budget for the month to complete the task. The flexed budget shows how much money is needed now to stay on track with the original plan (Maman and Soffan, 2017). The flexed budget column represents what was spent on this activity during that month and it may vary from the original budget due to time and material substitution or reassignment of resources from other areas. The variance column shows how much over or under original budgets tasks have been completed.

A monthly control report is required that should include the original budget and the variance between the original and the flexed budget which should also be included in the report. The report can be found here:

Particulars	**Original Budget (1)**	**Flexed Budget (2)**	**Activity Variances (2-1)**
Units	100,000	80,000	
Sales Revenue	**2,500,000**	**2,000,000**	**500,000 (U)**
Costs:			
Variable costs:			
Materials @2.5	250,000	200,000	50,000 (F)
Labour @4	400,000	320,000	80,000 (F)
Overhead @1.5	150,000	120,000	30,000 (F)
Contribution @17	1,700,000	1,360,000	340,000 (F)
Total variable costs	**2,500,000**	**2,000,000**	**500,000 (F)**
Fixed overheads:			
Warehouse rental	200,000	200,000	0
Insurance	100,000	100,000	0
Fulltime warehouse supervisor salary	50,000	50,000	0
Total Fixed overheads	**350,000**	**350,000**	**0**
Total Costs	**2,850,000**	**2,350,000**	**500,000 (F)**
Net Operating Income (Loss)	**(350,000)**	**(350,000)**	**0**

Table 01: budget variance report

The report identifies the dissimilarities of revenues and overall costs between the both original and flexed budget. This indicates the required changes managers or decision-makers had to undertake to cope up with Covid 19 effects (Caan, 2021). The report shows both favourable and unfavourable changes in the flexed budget. The sales revenue of Amana Ltd. Has turned out to be negative than the original amount budgeted. Thus, it has resulted in an unfavourable situation. The sales have decreased by £500,000. As a result, it can be assumed that the net operating income of the organisation might also be reduced to an unfavourable condition as the sales revenue has decreased by 20 %. However, the most satisfying concern is that the organization's NOI has not resulted in an unfavorable situation. This is because of the favourable decrease of other variable costs related to the production process. The fixed overhead costs included in the table though hasn't changed from the original budget planned, despite the reduction of the number of units that were produced. As per the flexed budget, the sale has decreased by the unit of 20000, thus the variable costs per unit sold have also decreased. If the cost didn't reduce we would see a percentage of 20 % reduction for the NOI of the company. However, when unit output decreased, variable costs decreased as well, assisting in preserving uniformity and avoiding unfavorable NOI results. Though the change in variable costs is favourable the ultimate return is not satisfactory as it maintained consistency in incurring a loss on net operations.

Requirement ii

Performance reports are created to establish an understanding between the actual performance and the benchmarks that were set before (Issa, 2013). Benchmark is the model utilized to track performance over time. Performance reporting enables an organization or business unit to evaluate individually each section's and overall performance, as well as performance relative to its peers. The performance report can also be used to identify opportunities for improvement and target key performance indicators (KPIs) (Gaines, 2020).

Amana ltd offered the original budget as a performance measure for reviewing the actual circumstance. The business is on the verge of losing money at the end of the month. It initially detected the danger of loss in the budget and anticipated a loss of £350000 owing to the Covid-19 effect, which was confirmed in the flexed report. The managers were successful in predicting the loss in this case. The only source of revenue for the Amana Company is the sale of souvenirs to tourists in various tourist destinations throughout England. As a result of the pandemic, the company's sales have reduced by 20000 units, resulting in a 20% decrease in return on sales. The company's total fixed cost of production hasn't changed despite the reduction in the sale. In consequence, the fixed overhead cost per unit has increased by 20% going up from £3.5 per unit to £4.375 per unit. On the contrary, the total variable cost has made a favourable change but it hasn't reduced the variable cost per unit as the number of units sold have also decreased. As a result, the favourable reduction of the costs of all the variables hasn't made any impact on the net operating income of the company.

Requirement iii

Vertical analysis of income statement over a range of possible activity levels that will allow the company to maximize total contribution margin per unit and maximize units sold per period is provided here through BEP analysis (Vercio, 2016).

The company's fixed cost is £350,000 and variable costs for each unit of activity is:

Variable Costs per unit = £2000000/80000 = £2.5

Sales per unit = £2000000/80000 = £2.5

Therefore, the total contribution margin is £2.5 - £2.5 = £0 per unit.

As a result, after reducing the fixed cost, the company is incurring a loss.

Amana Ltd., an international company located in England, is noticing losses due to the impact of the covid-19 pandemic (Anjali, 2021). The manager should focus on improving their cost efficiency and increasing sales.

The best way to recommend to Amana company on the income statement to increase profit would be for it to reduce cost (Income Statement vs. Comprehensive Income Statement, 2019). As the variable cost is equal to the sales revenue, I recommend the company reduce its cost because it has a higher impact on increasing profits than increasing sales. Amana company has to reduce both fixed costs and variable costs. Reducing variable costs will eventually increase the contribution margin that will create for the business to cover fixed overhead costs. The organisation’s fixed cost per unit increases as the level of sales decreases (Vercio, 2016). It needs to reduce fixed costs in proportion to the level of sales reduction. Due to decreased expenses and thus more money available for dividends or reinvestment back into the company's assets such as personnel or extra equipment, a decrease in cost leads in an expanded bottom line.

If by decreasing costs, cash flow does not permit adequate reinvestment, another option would be to recommend expanding sales efforts with current assets rather than acquiring new assets (Nobanee, Salman and Abraham, 2021). The effect of the pandemic has interrupted the general sales procedure. So, the company needs to undertake a new initiative to sell their souvenirs such as selling online, using social media, or adding new lines of products or services to cope up with the losses.

Part B

In this time and age, it is not surprising how many business owners are turning to online marketing as a way to promote their products or services (Mancini and Gattai, 2013). Online business helps benefit any organisation as it allows them to reach out to an even wider consumer base than they would usually target through traditional means of advertising like TV, radio, print media, and outdoor ads.

In the past, business owners have been reluctant to invest in online promotional methods as they did not know how effective they would be (Mancini and Gattai, 2013). However, with the benefit of learning more about their consumers and through conducting market research, these companies are now able to tailor their advertising strategies according to the demands of their clientele.

On top of that, going online has become a necessity if companies want to remain relevant in today's highly connected world (E-marketers seek higher peaks, 2011).

The advantages of going online for a business surpass the lackings it brings on at a great length. Here we will briefly discuss some advantages of going online-

Face value of Amana Ltd.

Going online can enable an organization to improve its brand image in a cost-effective manner where the advantages of going online lie (Mastering an online brand strategy, 2019). To create an easily recognizable brand, organizations have to ensure that it is well promoted. This could be done by using various marketing techniques such as advertising and public relations.

Convenient communicative and marketing process

Businesses can show their customers that they are up-to-date and future-oriented, as well as support the current marketing strategy. For companies, it has become increasingly important to use social media channels such as Twitter and Facebook (Jensen, 2019). More than half of all internet users love to learn about new products via Facebook, but only if the information comes from close friends or family members: word-of-mouth communication is still very effective and relevant. Almost every online user uses social networks today – large companies also use them because they want to communicate with their customers directly so they can open an authentic dialogue about their brand or product.

Nonstop service period

There are many advantages available to businesses when they go online. The internet is available 24 hours a day, every day of the year, and allows customers to look at the products or services available. It can increase sales and revenue by allowing your customers to process purchases without leaving their own homes which will allow Amana Ltd. to compete against larger companies that cannot offer this (E-marketers seek higher peaks, 2011).

Efficiency in terms of costs

By going online, you can save on cost because transactions over the internet do not require physical attendance by parties involved. Amana company will not need to spend money on gas, insurance, and other cost-consuming expenses. By having an online presence, the company can make its product or service accessible to potential customers eventually reducing the advertisement cost.

Conduct multinational business

If Mr. Amana wants to establish his company as a leader in the global market, then having an online presence is a must. If he has an e-commerce website, then it will be very easy for people to find out and purchase products or services (Thomas, V. and (India), 2018). The business will experience rapid growth as more and more international customers start coming to the website to find what they're looking for.

In the end, it can be stated that investing in a website and going online for a business provides many advantages, one of the key benefits being that businesses can use their website to target more customers. This is important because it means that an investment of time and money into developing a quality website will provide returns not just once, but on-going revenue from targeted audiences.

Analysing the decision whether to go online or to sell on Amazon

Many people decide that they want to start selling on Amazon. With its incredibly large customer base and the relative ease of signing up, it makes sense why so many people choose to go with this option (Zanfir Fortuna, 2016). However, several things need to be considered.

First, the seller has no control over the process once signed up. Amazon will increase as well as decrease the level of orders based on the demand. Amana will not have any control over any of this, even though it directly affects his business (Zanfir Fortuna, 2016). Customer return can cause lowering their order with the supplier or even cancelling it altogether without warning. There has also been the impact of similar market competitors. Refund and return policy also hurt the business as it creates monetary risks for the sellers.

When deciding between the options accessible to Amana, such as opening their online store or selling on Amazon, the corresponding expenses of each option should be considered. The predicted net income of the accessible choices for the coming year might be utilised to help determine which option to pick.

Table 2 shows the estimated net income from starting Amanda Ltd's internet store:

Setting Up Online Shop	Amount	Amount
Sales Revenue (100000*20)		**2,000,000**
Less: Expenses		
delivery network setup cost	150,000	
current website upgradation cost	50,000	
full-time IT programmer salary cost	35,000	

Total Expenses		**(235,000)**
Net Income		**1,765,000**

Table 02: income statement for online sell

Then again, The following table shows the estimated net gain from selling on Amazon:

Selling on Amazon	Amount
Sales Revenue (65000*20)	**1,300,000**
Less: fees for Amazon fulfilment	(50,000)
Net Income	**1,250,000**

Table 03: income statement for Amazon sell

Mr. Amana has two alternatives after selling half of his business from 2 of his all souvenir shops. He can go online and conduct business on his own or he can enrol as a seller on Amazon and sell on the website. We have analysed both of the opportunities based on the return on both the revenues minus the annual cost. The cost analysis shows that by setting up his own business Mr. Amana will gain £500000 more than what he will gain after joining Amazon.

Therefore, considering all the relevant factors, it would be decisive for Mr. Amana to go online and start his shop under his management.

Conclusion

The report reflects Amana Ltd.'s overall status and makes recommendations on a number of areas. First, it looked at how Covid 19 has impacted the company's sales and net operating income, and it made a few recommendations to boost profits and reverse the loss. The implications of the rapidly growing online industry and how it has impacted the traditional business process are discussed in the paper. The report also examined Mr. Amana's two options for going online and supplied him with the logic he needed to start his business online.

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