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# Management Accounting Case Study

## **Amri & Sonbean Merger**

Amri ltd is a strong competitor for Sonbean Pty Ltd. Amri ltd is supplying it's both products to Australian market. Amri ltd. has given proposal of Merger to Sonbean Pty Ltd. so that they can supply the market collectively. Amri ltd. further committed that they will allow relocating top management and 50% of the workforce to Pakistan and also total relocation fees is being paid to Sonbean Pty Ltd. for their top management and 50% workers.

By doing so they will able to sell more quantities at low price which will increase their sales number because at low price more demand arises this will somehow help in earning more revenue. Cost for different raw materials used in production reduces say plastic cost by 15%. Cost for electric cord, electric components (both types) and the brush components reduced by 25% respectively i.e. reduced to 75% that of Sonbean Pty Ltd. Now for Labor workforce that is relocated will be given 10% increase to their normal salary and the remaining workforce salary will also be offered by Pakistan but their salary will be 60% of that is paid to Australian labor workforce. So this is not advantageous for those 50% workforce who was not given relocation option to Pakistan. On the other side if we talk of other costs that too will reduce to certain extent which will be advantageous for Amri ltd.

## **Advantages of Merger**

With this merger they are able to manufacture at low costs and supply products at a low price. However with low selling price they can increase their sales numbers because quantity demand rises in the market with reduction in the price level as a result it will enhance their profit level and also the level of margin between cost and mark up price. So for Amri ltd. this merger will no doubt is beneficial because they can manufacture at low cost than earlier and supply more which will help in expanding their presence in the market.

On the other side if we see this Merger from Sonbean perspective then it might not be beneficial for Sonbean to merge with Amri ltd. The first and most important disadvantage of Merger is that they will lose their identity because the product which they will collectively manufacture is to be supplied with name of Amri ltd. which will somehow not a good thing for any firm.No doubt Sonbean will earn good revenue, more revenue than before but with the name of Amri ltd. They have to be dependent on Amri ltd. for their production and earnings because market will recognize the product by the name of Amri ltd.

Secondly, Sonbean had already purchased a building 10 years ago for their production which will last 15 more years. The fixed cost in the form of depreciation attached to that building is 70% which is very high and that is to be completely beared by Sonbean which will be an extra burden to them. Due to that their profit margin which they will earn reduces further and cost which they have to incur is far more than the actual cost which Amri ltd. has to incur. So this merger will generate extra cost burden on Sonbean Pty ltd. But after merger Amri will be using their space for production so they don't have to bear this extra burden which was beard by Sonbean ltd.

### **Non Financial Challenges**

There are several non-financial challenges which Sonbean might have to face after merger. One of the important challenges is that they will lose their market presence and the goodwill which they have created in last 10 years of operations. The other challenge is the brand value of the products which they have created for their brand by supplying good quality products and continuously meeting the market demand. Thirdly they also have to lose their independencies of supplying the market because after merger they have to completely dependent on the Amri ltd. for their production and supplying process. Other important challenge which Sonbean has to face is the employment opportunity which they are giving to

several resources and due to this merger they have to lay off certain workers and relocate others which will somehow create imbalance in their living.

If we see the cost impact of Sonbean after merger than they have to bear more cost than Amri Ltd. Extra cost which has to be beard by Sonbean is their fixed depreciation cost which they have to incur for next 15 years because the building which they have purchased will last 15 moreyears. On the other side they also have to bear the cost of plant and machinery which they have installed in the building for production process.

So I would say that due to above factors this merger is not efficient and it's not beneficial for Sonbean to enter into merger as one of the property of merger is that neither party loses their presence from the market but in this scenario Sonbean has to lose their presence i.e. their independency which will not last long in anyway because one cannot earn or operate efficiently by decomposing other's presence.

This merger would be beneficial if they collectively come up with the common name so that their presence remains into existence and share the market equally. Amri should prepare their plan in such a way so that both units remain into operation despite of only Pakistan, because this will not create extra cost burden on Sonbean and both will efficiently operate collectively. They also formulate their plan so that after merger they not only target only Australia but also try to diversify their business to different geographies and that is only possible if they both work independently but with one collective name. Merger usually means that both parties will have their existence in the market and if one loses their presence then that merger is not effective and will definitely last long.

At last it is concluded by saying that they both have to come up with the process in order to make merger efficient and effective so that they both operate collectively from the same place where they are earlier operating and that would be beneficial because that will enhance their

revenue, enhance their market share, improvise their brand values, also helps in diversifying their business and market presence and helps in increasing their sales units. If they come up with the above process then it will result in synergy, which is very beneficial for any firm whether it's operated at a small scale or large scale. This will be helpful for the employees of both companies who are working in the organization because both firms will expand their operations due to synergy factor and hence earn more revenue.