

Accounting Fundamentals LCBB4001 Assessment 2 - Written Exam. JUNE 2020 (WKD)



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MODULE TITLE:Accounting
Fundamentals(LCBB4001)
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QUESTION 1

Solent Ltd makes a product called the Sandals. The company's directors believe that the product is not as profitable as it could be. At present the selling price of the Sandals is £5.75 and it incurs the following variable costs:

Direct Labour	£1.35
Direct Materials	£1.75
Other Direct costs	£0.40

The fixed costs of production are £180,000 and the company currently sells 90,000 units.

Required:

- a) Calculate the break-even point (in units and revenues) of the Sandals for Solent Ltd. [10 marks]

Calculations:

The break-even point is the point where the total cost and total revenue is equal

To figure that out I need to calculate the total cost

Fixed cost of production: £180,000

Units to sell: £90,000

Direct Labour cost: £1.35

Direct Material cost: £1.75

Other Direct costs: £0.40

So it would be $£180,000 + (90,000 \times 1.35) + (90,000 \times 1.75) + (90,000 \times 0.40)$

£495,000.00 TOTAL COST

To calculate the Total Revenue:

$= 90000 \times 5.75 =$

£517,500.00 TOTAL REVENUE

Break Even in revenue is Total Revenue - Total Cost

$= £517,500.00 -$

$£495,000.00 =$

£22,500.00

Fixed Costs $\div$ (Price - Variable Costs) = Break Even Point in Units

$= 180000 / (5.75 -$

$3.5) = \textbf{£80,000.00}$

- b) Calculate the profit made on sales of 90,000 units. [10 marks]

Calculations:

Calculate the profit made on sales of 90,000 units

TOTAL REVENUE - TOTAL COSTS

$= £517,500.00 - £495,000.00 = \textbf{£22,500.00}$ Profit Made on the sales of 90,000 units

- c) The company decides to improve the product. It estimates that an advertising campaign to promote the new improved Sandals will cost £12,500. Improving quality will add 15p per

unit to material costs and 5p per unit to labour costs. However they believe this will allow them to increase selling price by 25p and increase sales by 5%. Calculate the new profit figure for the improved Sandals. [15 marks]

Calculations:

New Fixed Cost= £180000+£12.500 for advertising

£ 192,500.00 TOTAL FIXED COST

New Direct Labour Cost = £1.35 + £0.5 = **£1.40**

New Direct Materials Cost = £1.75+ £0.15 = **£1.90**

Other Direct Costs= **£0.40**

New Selling Price= £5.75+ £0.25= **£6.00**

The new units sold will be **94500** as it increased by 5%

New Total Cost will be = Total Fixed Cost 192,500.00+ (94500*1.40)+(94500*1.90)+(94500*0.40)

£ 542,150.00 NEW TOTAL COST

New Revenue will be = 94500 x (5.75+0.25)

£ 567,000.00 NEW REVENUE

NEW PROFIT=NEW REVENUE-NEW TOTAL COST

=£ 567,000.00 - £ 542,150.00=

£ 24,850.00 NEW PROFIT

d) Discuss the limitations of break-even analysis. [15 marks]

Answer: Limitations are, but not limited to:

- the break-even analysis is only a supply-side analysis, as it tells you nothing about what sales are actually likely to be for the product at these various prices

- It assumes that fixed costs are constant and it assumes average variable costs are constant per unit of output

- It assumes that the quantity of goods produced is equal to the quantity of goods sold which is not realistic

QUESTION 2

One of the objectives of management accounting is to assist management in the process of planning, control and decision-making.

Required:

- (a) Critically discuss why management accounting is necessary, given that most businesses have to prepare financial accounts in accordance with the law.

[25 marks]

- (b) Critically discuss the techniques by which the management accountant can achieve the above objectives.

[25 marks]

Answers:

- a) Management accounting is necessary for every organisation as it gives internal insight of the company position. It allows business owners and stakeholders to control the business and the ability to maintain good financial control.

All businesses are required by law to prepare and present financial account statements, but this information does not help owners to make good decisions.

Some of the benefits of using and preparing Management Accounts are:

- Better Business Control- Management Accounts provide detailed information and identify the positive and the negative impact based on sales volumes, operating margins and costs and profits. This information will help for making important business decisions and outline new company strategies throughout the year. These internal calculations will allow business owners to review objective information on product sales trends and will help in investing in different projects and product lines. Costs analyses will show directors where the company money is spent and if costs are calculated correctly.

Management accounting helps in reducing year end audits and accounting costs- During the preparation of the management accounting many questions and issues can be resolved and addressed on time in order to present the correct and valuable information for submitting the yearly financial accounts. The management accounts can also easily detect a fraud. As they summarise all involved costs and profits of the business no information can be hidden or presented wrongly.

- b) Business objectives can be achieved by having good financial planning. The main and very important role of the management accountant is to forecasts and analyses the financial information of the company. PL accounts and Balance sheets are important financial statements, but they need to be carefully explained and presented with the help of ratio analyses and comparative financial statements. All these analyses help the management to understand the company rate of growth and to predict the upcoming profit.

The management accountant can use the marginal costing technique to fix the selling price, to resource the raw materials and to accept or reject orders. This is all based on the fixed costs, variable costs and contribution costs.

The techniques of management accounting should also include good communication. That will help the accountants and the board members of a company to communicate without issues and will enable them to work effectively.

Another good technique is to use funds flow statements in order to analyse any changes in the financial position. It gives insights of where the funds were coming from and where and how they have been distributed.