

Accounting Fundamentals

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QUESTION 1

(a) Calculate the break-even point (in units and revenues) of product A for Kerrigan Ltd.

Given information

Selling price	11
Variable cost per unit	6
Fixed cost	350,000
Selling units	75000 units

Break even in units = Fixed cost / sales price – variable cost

$$= 350,000 / 11 - 6$$

$$= 350,000 / 5$$

$$= 70,000 \text{ Units}$$

Break even in revenues = Fixed cost / Contribution margin ratio

$$= 350,000 / 375000/825000$$

$$= 350000 / 45\%$$

$$= £777777.77$$

Contribution margin ratio = contribution / sales

$$= 5 \times 75000 / 11 \times 75000$$

$$= 375000 / 825000$$

$$= 45\%$$

(b) Calculate the profit made on sales of 75,000 units

Particulars		Amount
Sales	75000×11	825000
Less: Variables	75000×6	450000
Contribution		375000
Less: Fixed cost		350000
Profit		25000

(c) Calculate the new profit figure for the improved product.

New given information

Selling price	13
Variable cost per unit	7
Fixed cost	350,000
Selling units	80000 units
Advertising cost	10000

Particulars		Amount
Sales	80000×13	10,40,000
Less: Variables	80000×7	560,000
Contribution		480,000
Less: Fixed cost		350000
Profit		130,000

(d) Discuss the limitations of break-even analysis

Sales cost and variable costs do not grow in inflexible percentage with the price of production. At higher level of manufacturing, they may be much less proportionate than what they ought to be. This is because of exchange discounts, economies of bulk buying, concessions for higher sale and many others. Since variable overheads are appropriated on predicted foundation, trouble of under or over restoration cannot be eliminated. Price fixation and comparison among two jobs cannot be finished without thinking about fixed costs. It ignores time element as over an extended periods all fees exchange (Alabdullah, 2019). Therefore, comparison of overall performance between durations on the idea of contribution isn't always possible. If the quantity of constant costs of companies differs, the contrast of each the corporations on the basis of contribution is likely to lie to. Guided by using marginal fee precept, a company can also opt for excessive order at a decrease fee, ignoring the plant potential. It might also necessitate extra time running, extension of manufacturing ability which in flip may boom fee of manufacturing and bring alternate in constant charges. Many times, the company may additionally incur losses. Valuation of remaining stock at marginal fee will cause underneath-estimating it within the final debts. Consequently, earnings are suppressed and the balance sheet is distorted (Hiebl and Richter, 2018).. In controlling expenses, marginal costing isn't always beneficial in issues in which constant fees are huge with regards to variable charges. Since inventory is undervalued at marginal fees, in case of loss via fireplace, complete loss cannot be recovered from insurance organization. It is located flawed in industries like ship building, and so on (Kumarasiri, 2017). . If fixed expenses are left out in valuation of work in development, losses can be incurred each 12 months until the settlement is finished. It may additionally create profits tax problems. Therefore, these are some of the limitations of break-even analysis that can have an impact on the overall outcomes.

QUESTION 2

a. Discuss the importance of management accounting, and how it differs from what financial accounting provides.

Management accounting it is useful to to maintain all the financial information of the organisation so that company can effectively improve their sales and enhance their profit maximization rate. Management accounting is useful tu to consider all the cost structure and maintain specific regulations of the financial turnover (Collis, Hussey and Hussey, 2017).. The importance of management accounting is more because it can useful to make a financial plan so that financial manager can effectively prepare a budget. There are various importance of Management Accounting which are given below -

- Management accounting is useful to to prepare a strategic planning process so that financial manager can effectively contain monetary & non monetary information about the company operations. Strategic planning is useful to prepare a a structured budget system as per the requirement of each and every department.
- Management accounting is also improve bi decision making applicability of the the manager. With the help of Management Accounting, furniture manager can appropriately follow specific course of action so that manager can take financial decisions for the betterment of the organisation.
- Management accounting is also useful to maintain the strategic management process which is generally follow via the financial manager. Strategic management process is also useful to identify the uncertainty of the risk.

b. Discuss three techniques by which the management accountant can achieve the objectives of management accounting.

The role of Management accountant is prominent because Management accountant is support the whole financial and Accounting system of the company (Cooper, Ezzamel and Qu, 2017). Management Accountant is utilise three techniques such as cash flow statement, fund flow statement, statistical techniques (Khetselius and et. al., 2018).

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