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ACCOUNTING FUNDAMENTALS

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FUNDAMENTALS

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INTRODUCTION

Accounting fundamentals is an important foundation which helps out in managing all the interpretation, analysing, reporting and the general areas through which transaction can be maintained. Management of accounting is the important areas as it helps out to frame and manage all the records, cash flow and the data which will help in governing the future goals and the financial transaction and accountability (Abdullah, and Sarwar, 2019). This report will cover limitations of break even analysis, importance of management accounting and further it will also provide three important techniques for management accounting.

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.

Break-even analysis is the general volume given in production which depicts the annual or total cost which will be applied with total or final sales revenue. This generally provides no loss and no-profit situation. This is being calculated with the output, as when the general output of any product falls lower than there will be loss, and in all the conditions where the annual output increase or exceeds the point then it will generate profit (Söderbaum, 2017).

Limitation of break-even analysis

- Generally it is assumed in all the break-even analysis that there can be division between the cost and expenses with type help of variable and fixed components. But as being analysed there is no clear division on all the variable and fixed types.
- The fixed cost which is being made in the levels of activity will not remain constant. As all the fixed cost use to be changed and vary with all the different and certain level in the activity.

QUESTION 2

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

Management accounting is generally a process or method which helps out to analyse all the business cost and operations which helps out to make all the financial reports, accounts to help the managers, records and important decision making through which the business goals can be established. The major importance of all the management accounting are like:

- It helps to manage the statistical information, financial wealth and also to manage all the accounting in proper and systematic manner.
- It helps in making the better plans which will help in future activities and also to analyse the performance by forecasting and making plans. As this generate a proper framed plan for all the future goals and programs (Glover, 2017).
- Management accounting frames in effective decision making as it use to organise all the information in table, charts, graphs and helps in taking the proper decision on right time period.

<i>Basis</i>	<i>Financial Accounting</i>	<i>Management Accounting</i>
<i>Audience</i>	It use to help in producing important information which are related to all external parties like, shareholders and lenders.	It generates the information which are being made relevant for all the managers, employees who are internally involved.
<i>Focus</i>	It use to create its major focus on all the financial accounting history with their general reports fro quarter and year.	This aims to focus for all the future and present forecasting through which major areas can be enhanced.

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

The three important techniques used by the management accounting in order to maintain the objectives are as follows:

- **Financial planning:** Management accounting used to create a major advanced financial; activities which helps out in making all the short terms and the long term goals. This also manages to make the financial procedures through which all; the financial policies are being formulated. It helps in managing the source funds, distribution of income, capital amount and many more.
- **Financial statement analysis:** This technique is significant method which is being made in order to generate the future earnings, profitability, pay interest and many more. As it helps out to helps in all the investors, creditors and business executives through which cash flow is managed.
- **Cost accounting:** This technique is helpful in order to manage the future planning and growth and also to generate cost control. It helps out in managing the process, department and all the past data to be processed in proper manner. It frames the working in all the accounting sector and the efficient areas and process (Debreceeny and et. al., 2017).

CONCLUSION

It is concluded from the above report that accounting fundamental is an important method which helps in analysing, classifying and reporting all the financial information as in relation to foundation of accounting. Break even analysis helps in depicting the general or the total cost with limitations like the fixed cost will not remain constant. Management accounting helps in providing all the analysis through which the general records and accounts are being maintained. Furthermore it is also analysed that there are some important techniques used by management accounting like, financial planning, financial statements and cost accounting history.

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