



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

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LEVEL 4

LEFEL 4

EXAMINATION PERIOD
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MODULE CODE: LCBB4001
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ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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QUESTION 1

Kerrigan Ltd makes and sells product A. The current selling price is £11 and the total of variable costs per unit is £6. The fixed costs of production are £350,000 and the company currently sells 75,000 units.

Required:

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

Determine the break-even point as follow:
In units and In Revenues:

	A	B
1	Particulars	Amount
2	Fixed costs	350000
3	Sales per unit	11
4	Variable cost per unit	6
5	Break even points in units	70000
6	Break even point (revenue)	770000

Following shows the calculation:

	A	B
1	Particulars	Amount
2	Fixed costs	350000
3	Sales per unit	11
4	Variable cost per unit	6
5	Break even points in units	=B2/(B3-B4)
6	Break even point (revenue)	=B5*B3

- (b) Calculate the profit made on sales of 75,000 units. [10 marks]

	A	B
1	Particulars	Amount
2	Fixed costs	350000
3	Sales per unit	11
4	Variable cost per unit	6
5	Break even points in units	70000
6	Break even point (revenue)	770000
7	total sales	825000
8	Profit	55000

Calculations:

	A	B
1	Particulars	Amount
2	Fixed costs	350000
3	Sales per unit	11
4	Variable cost per unit	6
5	Break even points in units	=B2/(B3-B4)
6	Break even point (revenue)	=B5*B3
7	total sales	=75000*B3
8	Profit	=B7-B6

- (c) The company will make an advertising campaign costs £10,000 and will improve the product specifications, which will increase the variable cost per unit by £1. This is expected to allow the company to increase the selling price to £13 and the sales is expected to be 80,000 units. Calculate the new profit figure for the improved product. **[15 marks]**

Profit is as follow:

	A	B
1	Particulars	Amount
2	Fixed costs	350000
3	New Sales per unit	13
4	New Variable cost per unit	7
5	Break even points in units	58333.3
6	Break even point (revenue)	758333
7	total sales	1040000
8	Profit	281667

Calculations:

	A	B
1	Particulars	Amount
2	Fixed costs	350000
3	New Sales per unit	13
4	New Variable cost per unit	7
5	Break even points in units	=B2/(B3-B4)
6	Break even point (revenue)	=B5*B3
7	total sales	=80000*B3
8	Profit	=B7-B6

(d) Discuss the limitations of break-even analysis

[15 marks]

Limitations of break-even analysis are as follow:

- Under this, sometimes it's tough to tell the difference between fixed and variable costs.
- Semi variable costs are not considered under breakeven analysis.
- Under this, a cost function is linear, and the selling price is assumed to be constant but in reality, this cant be the always case.
- Cost and revenues can't be always represented by a linear line.
- The variable cost doesn't need to be changed always according to the change in output of the organization.
- The accuracy of this analysis depends upon the data used by the managers.

QUESTION 2

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

[25 marks]

The importance of management accounting is as follow:

- Management accounting helps in strategic planning for the accomplishment of organizational goals
- Management accountant helps the management in understanding the financial information and data in a non-technical manner.
- It helps in controlling the weak points and taking corrective actions against them.
- It uses the techniques of budgeting, internal control, and cost control techniques which help in maintain the continued growth and success of the company.
- It helps in determining the effectiveness of the organizational policies
- It helps in making new capital budgeting techniques

It is different from financial accounting in the following manner:

- ❖ Financial accounting focuses on the preparation of financial statements during the accounting period While management accounting uses this financial information for making plans, policies, and strategies for effectively running the business.
- ❖ Financial accounting shows the monetary information only while management accounting shows both monetary and non-monetary information.
- ❖ Financial accounting information users can be internal and external but under management accounting, the user is only internal management.
- ❖ Financial accounting is not based on estimations but management accounting is based on estimation like it uses the budgeting technique.
- ❖ Financial accounting is mandatory to be prepared but management accounting is optional not important.

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

Three techniques by which the management accountant can achieve the objectives of management accounting are as follow:

- ❖ Capital budgeting techniques:
Under this technique, the managerial accountant calculates the information related to IRR and NPV so that managers can make decisions related to new capital expenditure and capital revenues of the organization.
IRR is the internal rate of return which calculates the rate of return that will be earned in a particular project or investment.
- ❖ Budgeting analysis:
Under this technique, the management accountant uses the method of budgetary control for the effective management of the operational activities of the organization. It helps in calculating the actual outcomes with the standard outcomes of the company.
Budget is of two types: Fixed and Flexible.
It helps in proper planning; Decision making and maintain the coordination between different departments of the organization.
- ❖ Marginal costing technique:
Under this technique, the breakeven point analysis, differential costing methods are used for proper decision making, cost control, and maximization of profit. It shows the relationship between the costs and profits of the business and this is useful in calculating the selling price and profit planning decisions. It even helps in deciding whether the organization should produce some part of the product or purchase it from an outside firm so that the overall cost of the organization can be reduced.

END