

Awarding Body: University of Wales Trinity Saint David

Programme Name: BA (Hons) Business Management

Module Name: Accounting Fundamentals (LCBB4001)

Assignment Title: Assessment Part 2 – Management Accounting

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QUESTION 1

A;

Break-even point

Contribution unit: Selling price per unit – Variable cost per unit = £11 - £6 = £5

Break-even point: Fixed costs / Contribution per unit = £350000 / £5 = **70000 unit**

B;

Profit made on sales of 75000 units

Margin of safety = Target profit – Break even point = 75000 units - 70000 units
= 5000 units

Profit = Margin of safety x Contribution unit = 5000 x £5 = **£25000**

C;

New profit figure

New fixed costs: £350000 + £10000 = £360000

New variable cost per unit = £6 + £1 = £7

New selling price: £13

New sales volume: 80000 units

Contribution unit: £13 - £7 = £6

Break-even point: £360000 / £6 = 60000 units

Margin of safety: 80000 units – 60000 units = 20000 units

New Profit Figure = 20000 units x £6 = **£120000**

D;

LIMITATIONS OF BREAK-EVEN ANALYSIS

Break-even analysis is a really useful management tool it helps businesses with decision-making but it has its limitations. For example, if the forecast or predicted sales do not turn out as it hoped then, the analysis will be undermined and it will not be as effective. Also, if new businesses open selling the same or similar products that can impact the break-even analysis and make it less reliable or valid. Another limitation can be promotional offers which can affect the number of sales. If suppliers decide to put up the prices for the ingredients what need for the production then, the variable costs will increase. That makes the analysis less reliable. Price increase could result fall in sales which means that the break-even analysis is not as accurate. The break-even analysis really only applies for one single product. If a company makes more products then, it is very difficult to get on overview of the costs distribution. (Blackbourn, 2018.)

According to Riley the break-even analysis should be used for planning rather than decision-making. It is because businesses sell more product than one and the break-even point is more difficult to calculate. Also, the variable costs can change. If the output rises, the company might be able to lower the selling price which would reduce the variable cost per unit. Fixed costs such as rent, even though they are supposed to be fixed can change too. For example due to Covid-19 landlords may need to reduce the rent. (Riley J.)

In a study about break-even analysis Berryman and Nobe points out that not all costs can fit into the fixed or variable category. Some costs are the combination of the two and called semi-variable costs. Other costs can be questionable and would not fit into those categories. These factors can make it difficult to calculate the break-even point accurately. (Berryman C., and Nobe M., 1999)

QUESTION 2;

A;

Management and financial accounting both report financial information to its users. Financial accounting is for external users whereas management accounting is about the internal organisation and provides information for internal use within the organisation. Management accounting provides information to internal users such as workers, supervisors, managers, owners what companies do not tell the public. External users such as investors, banks, government, suppliers rely on financial statements to evaluate profitability and risks of the business.

Financial accounting provides financial statements to external stakeholders. Management accounting provides detailed financial figures to internal management to help them in planning, monitoring and decision-making.

The management accounting is all about planning with a specific focus. It is detailed including lots of writing and literature. Financial accounting follows regulation standards whereas the management accounting is not regulated. It is subjective which means that different companies have different ways.

The management accounting is forward looking, thinking about the future. It helps organizations to plan ahead providing budgets, estimates and projections. The financial accounting is more about the past. Its main focus is reporting of historical financial information. Financial accounting requires more accuracy and the information provided is verifiable.

The frequency of the financial reports are subject to the requirements of the law and carried out on a periodic basis yearly or quarterly. With management accounting the company can decide how often they prepare it. Financial accounting includes quantitative whilst management reporting contains both quantitative and qualitative data. (Accounting Simplified, 2020)

B;

Target costing

Target costing is a cost management technique which helps to identify the cost at which a product must be produced to generate the desired level of profit, given the product's selling price. The cost target for a product is driven by the need to sell the product at a certain market price and to achieve a target profit margin. The target costing process helps to reduce costs and estimates the target selling price based on market considerations, customer needs and expectations and competitors' behaviours. (Mohamad M., 2020)

Budgets and budgeting

Budget is a quantitative expression of a plan of action prepared in advance of the period to which it relates. It sets out the costs such as salaries, expenses and revenues that are expected to be incurred or earned in future periods. Budget shows where the money is coming from and how the company spends it. There are many purposes of the budgeting technique such as planning and control, co-ordination (get people involved), communication (everybody needs to be informed what the company agreed on), motivation (if the company performs well the budget may increase next year), evaluation (what was the plan and what is the actual outcome), authorisation of expenditure. Budgets allocate resources and assign responsibilities. (Tutor2u, 2019)

Capital budgeting

Capital budgeting are financial decisions that relate to investment proposal. They help to evaluate long-term investments. Traditional and modern capital budgeting techniques can be used by the organisations to judge the feasibility of these projects. The modern methods for example Net Present Value, Internal Rate of Return, Profitability Index consider the time value of money whereas the traditional methods such as Payback Period and Average Rate of Return do not consider the time value of money. Both methods are based on the cash inflows and the outflows of the project. (Business Jargons)

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In submitting this work, I affirm that my work adheres to the scholarly and intellectual standards of honesty and integrity. I affirm that this work is my work only and that in the preparation of this work I have not consulted any person. I affirm that I have not plagiarised or misrepresented the ideas or language of someone else as my own and that I have fully and accurately attributed any ideas or text of others to the sources and documented each source.

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