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Trinity Saint David
BA Business Management

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Assessment 2

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Question-01

a) Calculate the break Even point of the Sandals of Solvent LTD

i) Break-even point in terms of Units =

$$\frac{(\text{£}180,000) \text{ Fixed costs}}{(\text{£}2.25) \text{ Contribution per unit}} \\ = 80000 \text{ Units}$$

Note: [Contribution per unit = selling price – (direct labour + Direct materials + other direct costs)]
= [5.75 – (1.35 + 1.75 + 0.4)]
= 2.25

ii) Break-even point in terms of Sales Revenue =

$$\frac{(\text{£}180,000) \text{ Fixed costs}}{(\text{£}0.391034) \text{ Contribution to sales}} \\ = \text{£}460,000$$

Note: [Contribution to sales ratio= [(selling price- variable costs) / selling price]
= [(5.75- 3.5) / 5.7] = .391034

b) Calculate the profit made on sales 90,000 units

Particulars	Workings	Total
Sales	(90000×5.57)	5,17,500
Less- Costs of goods sold	(90000×2.25)	2,02,500
Contribution margin		3,69,000
Less- Fixed costs	(1,80,000)	1,80,000
Net profit margin		1,89,000

Note: Costs of goods sold = (Material cost+ Labour costs) & other costs $((1.35 + 1.75 + 0.4) = 2.25$

c) Calculation of new profit figure after improvement

Particulars	Workings	Total
Sales	(94500×25)	23,62,500
Less- Costs of goods sold	(94500×22.25)	21,02,625
Contribution margin		2,59,875
Less- Fixed costs (180,000+12500)	(1,92,500)	1,92,500
Net profit margin		67,375

Note: Costs of goods sold (Material cost+ Labour costs) & other costs $\{(1.35 + 15) + (1.75 + 5) + 0.4\} = 22.25$

D. Discuss the limitations of break-even analysis

1. The break-even analysis assumes that all costs and expenses can be clearly separated into fixed and variable components. However, it may not be possible to clearly divide costs into variable and fixed types.
2. It assumes that fixed costs remain constant at all levels of business. Fixed costs are generally not limited to a specified level of activity.
3. The variable costs are assumed to vary according to the output volume. They are certainly working in practice, but not necessarily in direct proportions with output volumes.
4. If the price of the sale remains the same, then the revenues may not be straightforward. The price of a product depends on certain factors, including market demand, supply, and competition.
5. The assumption that only one product is produced, or the mix remains unchanged is difficult to find in practice.

Questions: 02

a) Critically discuss why management accounting is necessary, given that most businesses must prepare financial accounts in accordance with the law

In general management accountants help a company's management team make many important decisions. Special software is often needed to obtain rich financial and statistical information, based on which future actions and decision-making are planned. According to (McLean,2018) there are 6 main reasons why accounting management plays a crucial role in decision making, which include:

Relevant Costs Analysis- as the main task of the management accountant is cost analysis and proposals for changes, if necessary, but due to the dynamics of global business requires flexibility and rapid adaptation of new products, services, and marketing activities;
Audience Targeting- characteristics of the potential client and potential needs according to age, gender, location, income, etc.

Make or Buy Evaluations- production of own product, purchase, and processing of products from third parties or cooperation, the choice is for the most profitable and profitable option which is determined by the accounting analysis.

Define Budgets- Management accountants are involved in creating the budget, budget is a process of preparing a plan for spending and investing money, every business must have a well-designed plan to determine whether the available funds are sufficient for the planned costs and to achieve a positive balance;

Controlling- The analysis of the financial results is a tool through which the productivity and efficiency of different departments of the business are controlled, as it shows the profit and loss compared to previous periods and compared to other departments to introduce changes and improvements;

Planning- Another benefit of management accounting is the potential for discovering financial models and future developments, which is necessary in the presence of relentless competition and the constantly changing business climate nowadays.

With the planning power of management accounting, you can also create long-term business policies. Doing so, you make sure that the whole team stays on the same track and works uniformly towards achieving your business objectives.

A rule of thumb in the preparation of financial statements is that they must be performed in accordance with legal requirements, as they are available to everyone not only for people directly related to business financial statements are subject to regulation by reliable agencies (Garbowski et al, 2019). This help to avoid the public from cases of fraud, misrepresentation, and make sure the financial report is accurate. Because of the provisions of the Companies Act of 2006, the information contained in the financial statements is accessed to the public (Schroeder et al, 2019) This transparency help to reduce unfair market practices and also increase market competition, which keep stable prices of commodities. With the increasing number of multinational companies, it is vital that the figures being reported are consistent and verifiable. This help the investors to avoid dubious investment plans and figures (Narayanaswamy, 2017).

The above information describes how important and responsible the accountant's position is in any business. The accuracy and precision of the data are crucial to success, without accurate information it is difficult to assess the current state of the business to plan future business moves. In such circumstances, management accounting becomes an anchor of modern business.

b) Critically discuss the techniques by which the management account can achieve the above objectives

Financial statements, also known as an income and expense declaration, is a report that allows a party to determine its monthly revenue and expenses. A financial also be added to a prenuptial agreement so that the parties would later be unable to withdraw the agreement on the allegation of disappointment or lack of full transparency in the decision to sign the agreement. A financial statement is prepared by the rules of making it and system invent by the accountant

Standard Costing-Expenses are fixed. This involves a stick in the yard to measure the actual performance. If any, the causes of the variations shall be determined.

Marginal Costing-A marginal costing approach is used in the sales price description, selection of best product mix, optimization regarding restricted raw materials or services, making or buying decisions, approving, or rejecting bulk orders and the like. This concentrates on the fixed variable and cost of participation.

Revaluation Accounting-For the capital to accurately balance with the value of the assets the fixed assets would be recalculated in compliance with an accounting concept of revaluation. It helps to calculate the fair return on employed money.

Decision-making Accounting -A business problem can be addressed by selecting one of the best and feasible alternatives. The costs associated with this choice are calculated. The business challenge that arose from the dynamics of the organization itself is then solved using accounting information.

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