

ACCOUNTING FUNDAMENTALS

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Question 1

i) Contribution per unit =

Selling price per unit- Variable costs per unit

Contribution per unit=

11 -6= £5

Break- even point = Fixed Cost/contribution per unit = $350000/5 = 70,000$ units

ii) Break-even Point (Revenue)= (Total Fixed Cost/Contribution as to sales ratio)

Contribution as to sales ratio= $£5/£11 = £0.4545$ per unit

BEP is $(£350000/0.4545)=£770077$

The calculation has mainly reflected the computation of break-even value as per 70000 units. The calculation has reflected a better position as per the estimation of value. Valuation has been taken with a fixed cost value that has been divided with the contribution value. The margin has been reflected as per estimation 70000 units. The break-even value has been found to be better as per unit valuation. The table has described the way of using the formula for the study.

B:

Sales = $75\,000 \text{ units} \times 11 = £825\,000$

Costs

$V_c = 75\,000 \times 6 = (450\,000)$

$F_c = (£350\,000)$

Profit= Sales-(VC+FC)

$$=825000-(450000+350000)$$

$$=825000-800000$$

$$=£25000$$

The calculation for profit value has been developed using the sales and BEP value. It has taken the valuation margin that has mainly used the sales value from that BEP value has been deducted. The contribution value has been multiplied by the margin. Valuation has been reflected in a better value that has been taken as per margin. The calculated value has resulted in £25000 profit. Calculated profit has resulted from the sales margin.

C.

$$\text{New selling price} = £13$$

$$\text{New variable costs} = £7 (6+1)$$

$$\text{new contribution} = (13-7)=£6$$

$$\text{New fixed costs} = £360000 (350000+10000)$$

$$\text{New sales volume} = 80000$$

$$\text{New BEP} = \text{New fixed cost} / \text{New contribution}$$

$$= (360000/6) \text{ units}$$

$$=60000$$

$$\text{Profit} = (\text{New Sales Volume} - \text{New BEP}) \times \text{New contribution}$$

$$(80000 - 60000) \times 6 = £120000$$

The calculation has mainly used the break-even value that has taken the cost value and also the contribution. It has mainly valued the cost margin for computing the profit. In profit computation, it has considered the sales value and also the other financial margin. Valuation has

also taken the sales value that has resulted as per margin. Valuation has considered a total unit of 80000. The advertisement cost has been taken as per fixed cost value that has considered the margin valuation has reflected a better value as per margin.

D. Discussion the limitation of break-even analysis

The breakeven point is where the total cost equals the total revenue in the organization. It is the point where the company does not profit in the organization. The company also does not face any loss on such a point. It represents the volume regarding the production.

The analysis breaks even if only on the supply side but do not provide information regarding the sales of the product. The analysis of the break-even point is not concerned with the fixed cost of the production. The analysis is not effective for the comparison of two jobs and the fixation of price. The analysis leads to involves variable costs and it leads to assuming the quality of goods but there is no change in the number of products. The forecasting gets difficult and it only considers the external constraints in the company. The analysis ignores the competitor analysis. It assumes that all the stocks are sold and it does not consider the change in the cost. It doesn't calculate the semi-variable cost for the computation of profit. It does not consider several cost margins in the computation of value (LI *et al.* 2019, p.25). Mostly, it does not deal with the semi-variable value. The limitation of break-even is it does not allow the change in the condition of the market. The service in the business may differ from the products. The mix of the product remains unchanged and it doesn't affect the profit in an effective manner. The break-even chart can be manipulated at different output levels. It doesn't provide an effective report for budget-making.

Question 2

a) Management accounting is referred to as a simple process that directs the company in a way so that they can make decisions that are relevant for the smooth functioning of the organization. There is the importance of Management Accounting comma some of the most relevant importance of using Management Accounting in an organization are being mentioned below:

1) Every company focuses on using the management of coming as a Process as it generally follows its own structure and design which is specially made as per the needs of the organization

the rules and regulation that process of management accounting as per their requirement which indirectly helps the organization in making decisions related with the strategic management.

2) Management accounting is referred to as the process which is continuous as well as is referred to as an ongoing process that is helpful in the planning of the activity in a daily manner. It is the cause of this reason the company can proceed with their activities as per the planned process.

3) decision making is termed as one of the important reasons why people from the processes and the procedure of Management Accounting as it includes various types of Tools and techniques that can, directly and indirectly, help the organization in making decisions.

Differences between:

Basis of distinction	management accounting	financial accounting
Audit	This type of accounting generally do not require any investigations or audit (Abdusalomova, 2019, p.2)	This type of accounting require an ongoing audit by following the rules and regulations
Purpose	The main purpose of following the process of managerial accounting is that it helps the management in taking all the necessary diseases	The main purpose of adopting or following the principles of financial accounting is that it helps the external investors to make decisions regarding Investments

Table 4: Differences between management accounting and financial accounting

(Sources: Abdusalomova, 2019, p.2)

b) Techniques to achieve the objectives

Techniques	Ways to achieve objectives
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<i>Forecasting and trend analysis</i>	Trend analysis and forecasting are generally concerned with the identification of the trend and pattern that is followed by the product cause as well as with all the unusual variances that are being calculated from the values which are forecasted. All the forecasting is done after considering the reasons behind such variances
<i>Product costing</i>	Product costing is the method that helps the organization in calculating all the allocated costs of the variable as well as the overhead charges of the organization with the help of weight that cost of goods sold is calculated (Simeon and John, 2018, p.1639).
<i>Inventory valuation</i>	Inventory valuation is generally referred to as the technique that helps in the analysis and identification of all the actual costs that are generally associated with the inventory and product of the company

Table 5: techniques to achieve the objectives

(Sources: self-developed)

References

LI, Z.F., NI, Y. and WANG, Z.Y., 2019. Brief Analysis of the Relationship between Breakeven Point, Cost Structure and Business Risk. Value Engineering.

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Simeon, E.D. and John, O., 2018. Implication of choice of inventory valuation methods on profit, tax and closing inventory. Account and Financial Management Journal, 3(7), pp.1639-1645.