

University of Wales – Trinity Saint David
London Campus

ACCOUNTING FUNDAMENTALS

Assignment 2

2020

Student name: **Cristian Stoica**

Student ID: **1921732**

Module name:

Accounting Fundamentals

Module ID: **LCBB4001**

Lecturer name:

Widin Bongasu Sha'ven

Table of contents

<i>Question 1</i>	<i>3</i>
<i>Question 2.....</i>	<i>4</i>
<i>Bibliography.....</i>	<i>5</i>

Question 1

A. Calculation of break-even point for Solent Ltd. In units:

$$\text{Break-even point} = \frac{\text{Total Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}} = \frac{\text{£180,000}}{\text{£5.75} - \text{£3.50}} = \frac{\text{£180,000}}{\text{£2.25}} = \text{80,000 units}$$

Working note:

Variable cost = Direct Labour cost + Direct materials cost + Other Direct costs

Variable cost (£) = £1.35 + £1.75 + £0.40 = £3.50

Calculation of break-even point for Solent Ltd. In revenues:

Break-event point (£) = Break event point (units) x Selling price per unit = 80.000 units x £5.75 = £460.000

B. Profit to be made on sales of 90.000 sandals for Solent Ltd.:

Profit (£) = [Sales (units) – Break-even point (units)] x (Selling price per unit – Variable cost per unit) = (90.000 units – 80.000 units) x (£5.75 - £3.50) = 10.000 units x £2.25 = £22.500

C. New profit calculation:

Fixed costs (£) = Initial Fixed costs + Advertising cost + £180.000 + £12.500 = £192.500

Variable costs per unit (£) = Material cost + Labour cost + Other costs = (£1.75+£0.15) + (£1.35+£0.05) + £0.40 = £1.90+£1.40+£0.40 = £3.70

Sales (units) : = 90.000 units x 5% = 94.500 units

Total variable costs (£) = Variable cost per unit x Sales (units) = £3.70 x 94.500 units = £349.650

Selling price per unit (£) = Old selling price per unit (£) + £0.25 = £5.75 + £0.25 = £6

Total sales (£) = Sales (units) x Selling price per unit (£) = 94.500 units x £6 = £567.000

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}} = \frac{\text{£192,000}}{\text{£6} - \text{£3.70}} = \frac{\text{£192,000}}{\text{£2.30}} = \text{83,696 units}$$

Profit (£) = Sales – BEP (Break-Event Point)

Profit (£) = (94.500 units - 83.696 units) x £2.30 = 10.804 units x £2.3 = £24.850

D. Break Even analysis

Break Even Analysis (BEA) is a variable managerial tool and it is considered a useful technique for profit planning and controlling. It serves purposes of different types of users such as managers, investors, creditors and others. The volume of the profit is determined by internal and external factors such as cost, price, selling volume. BEA gives information about volume of production to be made in order to avoid losses. Despite the fact that BEA is a useful managerial tool it has also some limitations.

Limitations of BEA are as follows:

- **Separation of costs.** It is known that costs are divided into two groups: fixed and variable. However, in a long-term period fixed costs will become variable costs over the years.
- **Constancy of fixed costs.** The value of fixed costs is constant only for short-term period.
- **Constancy of selling price.** Prices has to adjust from time to time according to the demand on the market.
- **Non-synchronisation of production and sales.** Using BEA, we create assumptions that what is produced is immediately sold. However, in reality it is not so and that creates Open Stock and Closing Stock within organisation.

Conclusion

Break Even Analysis is very useful for a variety of users but only for short-term period and not for long-term period and that is major limitation to it. Also, it is not useful for all stages of operation

Question 2

A. Management Accounting

Management Accounting is defined as an application of the principles of the Financial Accounting to create, protect and increase the wealth of an organisation.

Management Accounting serves purposes of internal users like managers or employees. The information provided is useful for making future decisions in order to meet the targets and increase the performance of the organisation.

Management Accounting can be applied within entire organisation or within local branches.

Information provided to the decision makers of Management Accounting must be delivered on time and must be relevant for each department in order for decisions to be useful.

There are two types of decisions made by Management Accounting users describe as follows:

- ✓ **Strategic decisions** are mean to focus on implementing the policy of the company in such way as profitability and performance of the company to grow. This decision is made for long-term usage and consolidates the strength of the company.
- ✓ **Operational decisions** are for short-term period and determines how strategic decisions will be implemented.

Conclusion

Management Accounting is very important and useful within an organisation as is planning, implements and supervises for the organisation to run on a profit scale and is trying to prevent and minimise company losing risks.

B. Management Accounting techniques

Management Accounting use techniques such as:

- Break Even Analysis. This technique is used in order to determined the point where costs are covered in totally by sales. It is very important technique because it will show how much production has to be made for covering all costs and start making profit.
- Marginal Analysis determines how many products company can afford not to sell before making a loose.

Bibliography

Atrill P. and McLaney E. (2017) *Accounting and Finance for non-specialists. 10th Ed.* Harlow: Pearson, pp.247-329.

J.R. Dyson (2004) *Accounting for non-accounting students. 6th Ed.* Harlow: Pearson, pp.426-449.