



Accounting Fundamentals – Exam
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Question 1 a

Contribution per unit = Selling price per unit – Variable costs per unit

Contribution per unit = 11 GBP – 6 GBP = 5 GBP

Break-event point (units) = fixed costs/contribution per unit = 350,000/5 = 70,000 units

Break-event point (revenue) = fixed costs/contribution margin ratio = (fixed costs x sales)/
(sales-variable costs) = (350,000 GBP x 825,000 GBP)/(825,000 GBP – 450,000 GBP) =
770,000 GBP

Sales (revenue) = 11 x 75,000 GBP = 825,000 GBP

Variable costs (revenue) = 6 x 75,000 GBP = 450,000 GBP

Question 1 b

Profit = (75,000 – 70,000) x 5 = 25,000 GBP

or

Profit = sales – expenses = 825,000 – (350,000 + 450,000) = 825,000 – 800,000 = 25,000
GBP

Question 1 c

New selling price = 13 GBP

New variable costs = 6 GBP + 1 GBP = 7 GBP

New contribution = 13 GBP – 7 GBP = 6 GBP

New fixed costs = 350,000 GBP + 10,000 GBP = 360,000 GBP

New sales volume = 80,000 GBP

New BEP = 360,000/6 = 83,696 units

Profit = (80,000 – 60,000) x 6 = 120,000 GBP

Question 1 d

Break-even analysis is subject to certain limitations. In each break-even level assessment, we use a particular value for the variable "sale price". Therefore, numerous calculations and diagrams are required to understand the quantity that generates profits at different selling prices. (Ndaliman M., Bala K., 2007)

A second disadvantage relates to the variable "total costs". It is very hard to calculate this costs since there are many things that will fail and errors which can occur in production. During estimates, if sales growth and production reach level that's marginally covered by current fixed capital formation, labor costs are increased (recruitment of recent employees or increased overtime costs), resulting in an increase in variable costs. The above influences production and changes in total costs (Sinclair and Talbott, 1986).

Another factor is that changes in costs can change the quality of the products. Also, the break-even point isn't easy to estimate because there don't seem to be any mathematical calculations that leave a competitive environment. This refers to the particular proven fact that competition can cause prices to fall or rise hoping on demand. (Mathslover, 2020)

It should even be mentioned that a lot of companies sell over one product. Therefore, it'll be tougher to calculate the break-even point. Also, revenues from sales and variable costs don't grow rigidly in relevance the assembly value. At higher levels of production, they're less proportionate than they must be. this is often thanks to trade discounts, benefits from wholesale purchases, higher sales concessions, etc.

Question 2 a

Management accounting is accounting for managers that helps an organization's management to formulate policies and forecast, plan, and control the day-to-day business operations of the organization. Both quantitative and qualitative information is recorded and analyzed by management accounting. (Wood F, 2005)

The functional area of management accounting isn't limited to providing financial or cost information. Instead, significant information is extracted from financial and price accounting to assist management in budgeting, goal setting, higher process, etc. Accounting are going to be performed PRN by management e. g. weekly, quarterly, etc. the premise on which it should be reported.

Other principles are followed by financial accounting, which is an method of accounting primarily concerned with the preparation of economic statements and value accounting for third parties like creditors, investors, suppliers, borrowers, and customers. it's the clearest and purest variety of accounting that's reflected within the financial statements. All data is finished to supply relevant information to its users. it's also worth mentioning that this kind of accounting is predicated on assumptions, principles, and conventions like going concern, materiality, fit, fulfilment, conservatism, consistency, billing or historical cost. the information is ready following the rules per the relevant laws. (Wood F., 2012)

Typically, statements supported financial accounting are prepared over one fiscal year to enable comparisons to be made from the status, profitability, and results of the enterprise over a given period.

Differences between financial and management accounting:

1. Financial accounting is that the accounting branch that keeps track of all the financial information of an entity, while management accounting records both financial and non-financial information.
2. Users of monetary accounting include both internal management of the entity and external parties (e.g., investors, suppliers, lenders). the interior management board uses the management information.
3. Financial accounting data is available and reported to the public, the management accounting is confidential, and the data is available only to the internal management of a given entity.
4. Financial accounting collects the financial data of an entity in contrast to management accounting, which also includes non-monetary data such as the condition of the raw material used or the number of employees.
5. There is no specific and assigned format for management accounting that would be responsible for the correct image of the presented results. Financial data collected in financial accounting has a specific framework and format, such as a profit and loss statement or financial statement.
6. Financial accounting focuses on communicating information about an entity's activities, while management accounting provides information that helps in assessing results and developing plans.
7. Financial accounting is mainly kept on a fixed date, which is usually one year. Management accounting, according to the management's needs, e.g., weekly, monthly, quarterly

8. Information from management accounting does not require publication and audit, as it is used for internal use only. Financial accounting data must be published and audited.

Both sorts of accounting are of great importance, because they assist the enterprise in several ways. Since financial accounting is useful keep records of transactions and comparing the results of two periods or between two entities, management accounting is useful in analyzing results, developing a method, making an efficient assessment, and preparing goals and policies for the long run.

Question 2 b

The main goal of management accounting is to systematically provide the management with information that facilitates making optimal decisions regarding the company's operation under specific conditions.

Information provided by management accounting serves on to the recipient, who uses it, as an example, to clarify doubts. As a result, it directs attention to the choice of these tasks which will help find the optimal solution to a given problem or finding the simplest possible solution. These data are wont to control the course of processes within the company further because the implementation of individual plans and budget.

Three techniques are used to help a company achieve its management accounting goals:

1. Break-even analysis

In company management, it is particularly important to answer the question when the sale will start to bring profit. Not every sale automatically brings a profit because costs are a primary category in relation to revenues. For this purpose, it is useful to use a category called break-even point or break-even point and break-even analysis.

Break-Even analysis is employed to answer questions like "what is that the minimum level of sales that guarantees that the corporate won't suffer a loss" or "how much sales will be reduced, and also the company will remain profitable". Break-even analysis is an analysis of the extent of sales at which an organization (or project) would make zero profit. This approach determines the sales needed to even out profitability. (Shim J., Siegel J., 2005)

The break-even point is one among the key parameters that has to be considered when managing a corporation, because it allows you to assess whether the business is profitable in the least. A well-calculated break-even point is that the best indicator of whether the business is profitable. It also facilitates financial management. With a well-defined profitability threshold,

it will even be known whether you must in the reduction of on expenses or not. this can make it easier to manage the company's finances.

This analysis also helps to determine the pricing strategy of the merchandise. If you recognize what revenues the corporate should achieve to hide the prices, it'll be easier to work out the optimal price of the merchandise that may allow you to realize certain revenues as soon as possible.

2. Budgeting

Budgeting is a tool for planning your company's goals. Thanks to it, the entrepreneur can forecast the condition of his enterprise, its assets, capital, costs and revenues and other valuable aspects. (Wood, 2005)

Other functions are (Callahan K., 2011):

- allows to track the implementation of the enterprise plan and identify the deviations that arise, as well as the related opportunities and threats
 - allows to get to know in detail and effectively plan the structure of revenues and costs.
 - provides information on the profitability of products and projects.
 - allows for ongoing monitoring of the company's development. Thanks to it, you can react quickly if something unpredictable and dangerous to the company's finances happens. You can adjust current activities or implement new ones that will solve the problem and help you achieve your goals.
 - it enables the coordination of tasks and activities inside organizational cells. This allows you to look at the entire company and determine the moment in which it is located.
 - determines the company's cash needs and minimizes the risk of uncontrolled loss of liquidity.
- Budgeting focuses on the implementation of what has been adopted for implementation within a specific time perspective.

Critics of traditional budgeting indicate that the benefit of its resignation is the significant savings in the working time of managers and subordinates who were previously involved in creating, correcting and monitoring budgets, noticed in the first year after abandoning budgeting. However, more important should be the long-term benefits associated with more

radical thinking, greater responsibility of managers at the lowest management levels and faster decision-making in the enterprise. (Shim J., Siegel J., 2005)

3. Capital investment appraisal

In practice, capital budgeting determines the company's investment opportunities, the value of which should be greater than the incurred implementation costs. This means that the value of the cash generated by the investment during its use must cover all capital expenditures along with the costs of their acquisition. However, the optimal goal of such an investment is a certain surplus of revenues over expenditure in the form of the so-called free cash. It allows to evaluate a given investment as profitable. (Wood F., 2005)

Indicators such as:

- Payback period - is the time (number of years) it takes for the cash flows of incomes from a particular project to cover the initial investment.
- The Average Rate of Return ("ARR") method of investment valuation consists in analyzing the project's total accounting return. This checks the target return.
- Net present value- NPV - This indicator informs whether the value of all cash flows generated by the project exceeds the total cost of its initiation. They identified the prospect of the undertaking.
- Internal rate of return- IRR - is a measure of the rate of return of the expected cash flows generated by an investment.

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