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LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

EXAMINATION PERIOD
JUNE 2021 TERM

CYFNOD ARHOLIADAU
MEHEFIN 2021 TYMOR

MODULE CODE: LCBB4001
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ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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Date & Time : 27/08/2021 & 14:00

QUESTION 1

Kerrigan Ltd makes and sells product A. The current selling price is £11 and the total of variable costs per unit is £6. The fixed costs of production are £350,000 and the company currently sells 75,000 units.

Required:

- (a) Calculate the break-even point (in units and revenues) of product A for Kerrigan Ltd. **[10 marks]**
- (b) Calculate the profit made on sales of 75,000 units. **[10 marks]**
- (c) The company will make an advertising campaign costs £10,000 and will improve the product specifications, which will increase the variable cost per unit by £1. This is expected to allow the company to increase the selling price to £13 and the sales is expected to be 80,000 units. Calculate the new profit figure for the improved product. **[15 marks]**
- (d) Discuss the limitations of break-even analysis. **[15 marks]**

QUESTION 2

- (a) Discuss the importance of management accounting, and how it differs from what financial accounting provides. **[25 marks]**
- (b) Discuss three techniques by which the management accountant can achieve the objectives of management accounting. **[25 marks]**

END

QUESTION 1

(a) Calculate the break-even point (in units and revenues) of product A for Kerrigan Ltd.

Selling price = £11

Total variable costs per unit = £6

Fixed costs of production = £350.000

Comp current sales = 75.000 units

$$\text{BEP} = \frac{\text{fixed costs}}{\text{contribution per unit}} = \frac{350.000}{5} = 70.000$$

$$\text{contribution per unit} = \text{selling-variable} = £11 - £6 = £5$$

b) Calculate the profit made on sales of 75,000 units.

$$\text{Profit made on sales of 75,000 units} = 375.000$$

c) The company will make an advertising campaign costs £10,000 and will improve the product specifications, which will increase the variable cost per unit by £1. This is expected to allow the company to increase the selling price to £13 and the sales is expected to be 80,000 unites.

Calculate the new profit figure for the improved product.

Since the cost of production per unit grew by £1 and the selling price went to £13 => 13-7 = 6 => 6x80,000 units= 480.000 £ => 480.000-350.000= 130.000 £ new profit.

$$\text{New profit figure for the improved product} = £130.000$$

d) Discuss the limitations of break-even analysis.

Limitations:

- Assumes variable costs increase at a steady rate in line with activity.
- Few costs are truly variable.
- Fixed costs are only fixed to a certain point.
- Analysis complicated with multiple products.
- Ignores other factors.

Strengths and weaknesses of break-even analysis

There are lots of reasons why it could be a good idea for your business to do a break-even analysis:

- Pricing – Break-even analysis can help you determine the price that you need to charge to make a profit.
- Setting revenue targets – Having a clear goal and timeframe can help you set realistic revenue targets.

- Mitigate risk – Break-even analysis can help you identify areas of risk that are likely to generate little or no profitability.
- Gaining funding – A break-even point is a good point to consider when it comes to securing funding for your startup or business. It can help you identify areas where you can improve and make your business more sustainable.

However, the limitations of a break-even analysis shouldn't be underestimated:

- Doesn't predict demand – Even with a break-even analysis, it doesn't tell you how likely it is that you will break even. It also doesn't take into account the factors that will make it happen, such as the demand for your product.
 - Depends on reliable data – Your break-even analysis depends on the accuracy of the data you possess. If your calculations are off, it may not be the best tool for your situation.
 - Too simple – Break-even analysis is usually used for companies with one price-point. However, if you have multiple products and multiple prices, it may be too simple to justify your needs.
 - Ignores competition – This limitation of a break-even analysis is that it doesn't take into account the impact of new entrants on the market.
- It's also important to keep in mind that performing a break-even analysis isn't just about looking at the profitability of the company. It also helps to identify areas of weakness and opportunities to improve.

QUESTION 2

- (a) Discuss the importance of management accounting, and how it differs from what financial accounting provides.

Both financial and managerial accounting are used by large corporations. Despite the similarities between them, the two divisions have significant differences in their approach and usage.

There are significant differences when it comes to the use of financial and managerial accounting software. These differences are mainly focused on the various aspects of both accounting and compliance.

- Managerial accounting is a process utilized by accountants to communicate and interpret financial information to managers.
- Financial accounting is a process utilized to record and report the transactions and economic activities that occurred during a given period of time.
- Managerial accounting is different from financial accounting in that it focuses on assisting users in making well-informed decisions.

Financial statements are often used to inform investors about a company's financial health. They allow the board of directors and other interested parties to evaluate a company's performance over a period of time.

Both accounting systems are presented to a company's internal community and are used by its external audience. However, despite the importance of financial accounting, management accounting is still required for most managers to make critical decisions regarding the company's future.

- (b) Discuss three techniques by which the management accountant can achieve the objectives of management accounting.

Management accounting is a process utilized for analyzing and managing information. This discipline supports the management of organizations.

It helps the management to perform its functions, such as planning, organizing, and control. This field of accounting provides financial and managerial information.

This discipline involves analyzing and planning the future course of action of a company. It collects and analyses data on various factors to plan the future.

Financial Planning:

A firm's financial planning is done in phases. It involves analyzing the company's current financial position and its future goals.

The company can raise funds through a combination of share capital and loans. It has to consider the type of capital that it should raise, as well as the duration of the loan.

Cash Flow Statement:

A funds flow statement is very useful for long-range financial planning. It can reveal the working capital of a company. It can also help identify potential issues that could cause a company to run short of working capital.

A cash flow statement is a vital tool for cash control because it provides detailed information about the sources of cash flows and the types of outflows. It is also used to evaluate the cash management of an enterprise.

Communicating:

The success or failure of a management depends on the fact that the right information is provided to the right people at the right time. This ensures that they can effectively carry out their duties.

The management accountant prepares reports that detail the various levels of management. They will also prepare reports that are in line with the company's strategy and objectives.