

QUESTION 1

a.

TOTAL VARIABLE COST = DIRECT LABOUR + DIRECT MATERIALS + OTHER DIRECT COST = £1.35 + £1.75 + £0.4 = £3.5

CONTRIBUTION PER UNIT = SELLING PRICE PER UNIT - VARIABLE COST PER UNIT = £5.75 - £3.5 = £2.25

BREAK EVEN POINT = FIXED COST / CONTRIBUTION PER UNIT = £180 000 / £2.25 = 80 000 UNITS

REVENUE = 80 000 UNITS * £5.75 = 460 000 REVENUE

b.

BECAUSE 80 000 UNITS IS BREAK EVEN POINT IT MEANS THAT THE DIFFERENCE OF UNITS UP TO 90 000 UNITS IS REGISTERED AS PROFIT

90 000 UNITS - 80 000 UNITS = 10 000 UNITS

10 000 UNITS * 2.25 CONTRIBUTION PER UNIT = £22 500

c.

ADVERTISING COST = £12 500

FIX COST = £180 000 + £12 500 = £192 500

LABOR COST = £1.35 + £0.05 = £1.4

MATERIAL COST = £0.15 + £1.75 = £1.9

OTHER DIRECT COST = £0.4

VARIABLE COST = MATERIAL COST + LABOUR COST + OTHER DIRECT COST = £1.9 + £1.4 + £0.4 = £3.7

SELLING PRICE = £5.75 + £0.25 = £6

CONTRIBUTION PER UNIT = SALE PRICE - VARIABLE COST = £6 - £3.7 = £2.3

BREAK EVEN POINT = FIX COST / CONTRIBUTION PER UNIT = £192 500 / £2.3 = 83 696 UNITS

SALES = 90 000 UNITS + 5% = 94 500 UNITS

PROFIT= 94 500 UNITS-83 696 UNITS(BREAK EVEN POINT) X CONTRIBUTION=10 804 UNITS
X£2.3=£24 849

d.

BREAK EVEN IS THAT POINT OF BALANCE WHERE THE INCOMES ARE EQUAL WITH EXPENSES, IS NOT ANY PROFIT OR LOSS. HOWEVER THE BREAK EVEN HAVE LIMITATION. THIS IS HELPFUL IN RECOGNIZING THE RELEVANCE OF FIXED AND VARIABLE COST, BUT IS AFFECTED BY NUMEROUS ASSUMPTIONS LIKE VALUE OF SALES. ALSO BREAK EVEN ASSUMES THE FIX COST AND THE AVERAGE VARIABLE COST ARE CONSTANT. AS WELL IS A SHORT RUN ANALYSIS.

BREACK EVEN ANALYSIS ALWAYS RELATES COST TO THE OUTPUT AND THERE NOT EXIST TAX PROVISION.

QUESTION 2

a.

Management accounting is the process of preparing reports about business that help managers make decisions. It helps a business to achieve its goals by identifying, analyzing, interpreting and informing the managers.

Managerial accounting information is aimed at helping managers within the organization make well-informed business decisions. The activities management accountants provide inclusive of forecasting and planning, performing variance analysis, reviewing and monitoring costs inherent in the business are ones that have dual accountability to both finance and the business team. Examples of tasks where accountability may be more meaningful to the business management team vs. the corporate finance department are the development of new product costing, operations research, business driver metrics, sales management scorecarding, and client profitability analysis. (Fresh Books cloud accounting).

Managerial accountants technics are not dictated by accounting standards

The presentation of managerial accounting data can be modified to meet the specific needs of its end-user.

Managerial accounting include many aspects of accounting, including product costing, budgeting, and varied of financial accounting

b.

