

LOCATION: LONDON

LEVEL 4

EXAMINATION PERIOD JUNE 2021

MODULE CODE: LCBB4001

ACCOUNTING FUNDAMENTALS TIME: 9:00AM TO 4:00PM

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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.

To find our break-even point, first we must define our variable cost (VC) which is "6" and then to find our contribution.

So, from our selling price (11) we need to take the VC and that is how we have our contribution.

$$11 - 6 = 5$$

Break-even point (BEP) in units is when the fixed cost we divided to contribution.

$$350\,000 / 5 = 70\,000 \text{ (units)}$$

For revenues we need to multiply the units by our selling price which is 11 (0.11)

$$70\,000 \times 0.11 = 77\,000$$

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

The profit we will have when from the whole sales (75 000 units) we take out our BEP (70 000) and multiply by contribution that's how we have the pure profit without any costs

$$75\,000 - 70\,000 = 5\,000$$

$$5\,000 \times 5 = 25\,000 \text{ profit}$$

(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.

Here we need to define our new VC which will be:

$$6 + 1 = 7$$

$$\text{Contribution: } 13 - 7 = 6$$

Our BEP is now 60 000 units

Because the fixed cost has change as it the contribution.

$350\,000 + 10\,000 = 360\,000$ new fixed cost

$360\,000 / 6 = 60\,000$

From all sales we need to take out the BEP again to find the profit

$80\,000 - 60\,000 = 20\,000$

$20\,000 \times 6 = 120\,000$ pure profit

QUESTION 2

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

While the financial accounting is used once or twice a year for financial purposes as annual balance, the management accounting can be used almost every day. The management accounting is important because is helping to provide reliability, to raise the profit, to increase the efficiency, to measures the performance and all that with the help of different methods of analyses. It helps managers to take important decisions, to plan their work and their schedules. It helps in controlling the prices of products and to have better customer service.

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

The main objective of managerial accounting is to maximize profit and minimize losses.

One of the techniques to do that is financial planning, it could be describe as act of deciding in advance about the financial activities. The financial analysis is another one that helps business executives, investors and creditors with the result of the analysis statement. The third technique I chose is cash flow statement. It is based-on increase or decrease in working capital. Cash flow statement is tool of cash control, it is is very useful for liquidity analysis of the enterprise.

