



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

LOCATION: LONDON

LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

EXAMINATION PERIOD
JUNE 2021 TERM

CYFNOD ARHOLIADAU
MEHEFIN 2021 TYMOR

MODULE CODE: LCBB4001
COD Y MODWL: LCBB4001
ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

Name : MAGDALENA DENEVA

Student ID : 2023975

Date & Time : 27/08/2021

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.

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

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

Contribution per unit = $11 - 6 = £5$

Break-even point = Fixed cost/Contribution per unit

Break – even point = $350000/5 = 70000$ units

Break-even point shows that needs to be sold 70000 units to cover the expenses – VC and FC.

Break- even point = Fixed cost/Gross margin $\times 100\% = 350000/0.45 \times 100\% = £770000$

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

Profit = Revenue – VC - FC

Revenue/sales = $75000 \times 11 = 825000$

Variable cost = $75000 \times 6 = 450000$

Fixed cost = £350000

Profit = $825000 - 450000 - 350000 = £25000$

- (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.

New selling price = £13

New VC = £7 per unit, New FC = $350000 + 10000 = 360000$

New contribution = $13 - 7 = £6$

New BEP = Fixed cost/contribution per unit = $360000/6 = 60000$ units

(d) Discuss the limitations of break-even analysis.

Break-even analysis is a practical and popular tool for many businesses, but there are also limitations of the method :

- Break-even analysis becomes harder to calculate if businesses sell more than one product.
- Fixed costs do vary when the output changes and not all costs easily can be classified as variable or fixed.
- Break-even analysis ignores that businesses have to change their products or prices, because of competitors or other factors also ignores all economies of scale.

QUESTION 2

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

The main purpose of management accounting is to assist management in achieving better planning, decision -making and control over the organisation by providing financial and non-financial information. Financial and management accounting are two of four largest branches of the accounting. Financial accounting is reporting financial information to external users – creditors, suppliers ,government agencies and regulators. Management accounting related to internal users like shareholders, employees, management of the company.

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

The technique are:

- Break-even analysis -that is very useful aid to decision making and also break even charts provide managers with information on break-even forecasts, margin of safety at different output levels.
- Budgets are sets out the costs and revenues that are expected to be incurred or earned in future period. Stages in preparing a budget are – define a long term objectives, produce a budget manual, identify limiting factors, form budget community – people doing the budget .
- Capital investment appraisal – that is a planning process , both long term and short term. These are investment decisions depends what are the objectives and based on the priorities of stakeholders and decision makers.

END