



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 : Momchil Kostadinov

Student ID : 2028013

Date & Time : 27/08/2021 9:00AM

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]

Contribution per unit is $11 - 6 = 5$

$350,000 / 5 = 70,000$ units which is the break-even point in units

Gross profit margin: $375,000 / 825,000 = 0.4545454$

Break-even point in revenue = $350,000 / 0.4545454 = 770,000$

Another way is $70,000 * 11 = 770,000$

- (b) Calculate the profit made on sales of 75,000 units. [10 marks]

Revenue:

$75,000 * 11 = 825,000$

Variable cost:

$75,000 * 6 = 450,000$

Contribution:

$75,000 * 5 = 375,000$

Fixed costs

(350,000)

Profit made will be:

$(375,000 - 350,000) = 25,000$

- (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 units. Calculate the new profit figure for the improved product. [15 marks]

Contribution per unit= $13-7=6$

Break-even point in units= $(350,000+10,000)/6=60,000$ units or 780,000 in revenue

Profit= $(80,000-60,000) *6=120,000$

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

[15 marks]

The break-even analysis considers that you are selling all the stock. It can also be very hard to differentiate between variable and fixed costs. If the company is selling a lot of products, it will be more difficult to have fixed costs throughout the products and they only stay fixed until a certain point. 'Where there is more than one product, the proportions in which the products are sold, i.e., the product mix, can have a very important bearing on costs.' (Sangster 2012, p.665) The variable costs do change depending on the output of the company or purchasing input for less. Additionally, only some of the costs are indeed variable. It can also assume that they go up at a steady rate.

QUESTION 2

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

[25 marks]

Management accounting includes gathering, analyzing and reporting information on how the financing and operations are within the business. With help from the financial accounting, it is assisting the decisions of the directors within an organization. Part of the importance of management accounting is that it helps to make planning and effective decision making. It can help the business to follow its goals by communicating accounting data, measurements of performance and intelligence to the managers. Financial accounting lets us see, document, summarize and report on the transactions from the business operations for a period of time. With those transactions we prepare accounts, such as balance sheet, cash flow and income statement. The difference between Management accounting and financial accounting is that management accounting is only producing information for the internal community, but financial accounting can be also for external audience. Although that financial accounting is very important to possible investors, managing accounting is needed for all of the decision making in the business. Another difference is that management accounting could be founded on guesses and estimations with most managers not having time in order to have correct numbers at the point of decision making however financial accounting needs to stick to the Generally Accepted Accounting Principles (GAAP).

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

Because management accounting is internally based with helping when making decisions. In order to achieve the goals, set by the business, managing accounting is dependent on different techniques.

Margin analysis is mainly used for finding any extra benefits of the optimization of the production. It is one of the most important and vital techniques in management accounting. It consists of the calculation of breakeven point which defines the best possible sales mix for the business.

Inventory valuation and product costing recognition and assessment of the real costs related to what the company offers. It is mainly calculating and assigning of any extra expenses. And also the analysis of any direct charges connected to the cost of goods sold (COGS)

Capital budgeting is another one of the main management accounting techniques which is utilized by accountants in order to accomplish the goal of the business. It is tasked with the analysis of information necessary to get an important decision made. It calculates both net present value(NPV) and internal rate of return(IRR), which allows managers to make new decisions on capital budgeting.

References:

Dyson, John R., (2010) Accounting for non-accounting students

Sangster, A., (2012) Frank Wood's Business Accounting Volume 2, 12th Edition.
Pearson Prentice Hall

Weetman, P., (2013) Financial and management accounting, 6th Edition. Pearson Education Limited

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