

Accounting Fundamentals Assessment 2

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Contents

Question 1.....	1-3
Question 2.....	3-5
References.....	5

Question 1

(a) 1. Break-even point in units: $= 180.000 / 2.25 = 80.000$ units

Fixed costs/ (sales price/unit-variable costs /unit)

$$180.000 / (5.75 - \underline{1.35 + 1.75 + 0.40}) = 2.25$$

$$3.50$$

(a) 2. break- even point in revenue: $= 80.000 \times 2.25 = 180.000$

(b) profit made on sales of 90.000 units: **=22.500**

Units on sale (90.000) x price/unit (5.75) = 517.500-

Variable costs (3.50) x units on sale (90.000) = 315.000-

Fixed costs = 180.000

22.500

(C) new fixed costs = $192.500(180.00 + 12.500)$

New variable costs= $3.70(1.90+1.40+0.40)$

New selling price= $6.00(5.75+0.25)$

$90.000 \times 5\% = 94.500$ (expected sales)

$192.500 / 2.30 = 83.696$ units

94.500×6.00 (expected sales x new price per unit) = 567.000-

94.500×3.70 (expected sales x new variable costs) = 349.650-

New fixed costs = 192.500

24.850 (new profit figure)

(D) Break-even analysis is a useful tool for working out the minimum sales needed to avoid losses. However, it has its limitations. It makes assumptions about various factors - for example that all units are sold, that forecasts are reliable, and the external environment is stable. If new rivals enter the market or an economic recession starts, then it could take longer to reach the break-even point than anticipated.

Break-even analysis looks to be a very valuable and useful aid to decision making. Certainly, break-even charts are relatively easy to construct and provide managers with information on break-even forecasts, margins of safety and profit and loss at different output levels.

Manipulation of break-even charts can be used to answer; 'what if?' questions and can be part of a strategic analysis, including the setting of prices and establishing the resource levels required to hit target profits.

However, there are several limitations of break-even analysis.

- A static model where variables change independently of each other: in reality, the business world is dynamic and any increase in output and any change in costs is likely to impact on price levels. Break-even, like a balance sheet is only a snapshot of a situation at a point. Increasing shortages of energy, for example, will result in some significant increases in both variable and fixed costs.
- Not all costs can be easily classified as fixed or variable.
- The result is no more accurate than the accuracy of the original data it is based on.
- It ignores all factors other than costs and revenues: production is also affected by the availability of finance, people and management influences, competitive action etc. For example, maximising production may place excessive pressure on staff and may require existing employees to work overtime, so changing the cost base.
- Reactions of competitors: break-even analysis ignore the fact that competitors may change their products/and or prices.

QUESTION 2

(A) Management accounting is the process of preparing management reports and accounts that provide accurate and timely financial and statistical information to managers to make short-term and long-term decisions. It identifies, measures, analyses, interprets, and communicates information to enable an organization to pursue its goals.

Management accounting differs from financial accounting. While financial accounting provides information to people inside and, more importantly, people outside the organization, management accounting is mostly aimed at aiding managers inside the organization with decision making.

A management accounting department is one of the company's essential units, but most entrepreneurs do not realize it due to its "under the radar" style of work. Management accountants are insiders who create internal analyses to guide the overall business strategy.

By definition, their job is to prepare internal financial reports, records and accounts to aid managers' decision-making process in achieving short and long-term business goals. In other words, their job is to simplify complex financial data and turn them into actionable insights.

(B) Planning, control, and decision making are important aspects of the management process. These are essential activities of the manager that should enable the workers fulfilling the objective of the organization. Planning is defined as the ability of the manager to formulate activities aimed at achieving organizational goals. It requires clear objectives and identification of methods to achieving such goals. Controlling, on the other hand, is the managerial activity involved in monitoring and the implementation of the organizational plan and takes corrective measures where applicable (Bhattacharyya, 2011). This stage involves ensuring that organizations plan is implemented to the fullest. Lastly, decision making is a managerial role that involves choosing the best solution among many alternatives. It is worth understanding that this administrative role is collaboration between planning and controlling. Managers must ensure that the quality of decisions made is top notch to enable improving efficiency and productivity of the organization.

Importance of planning

Planning is an essential managerial role in the growth and sustainability of an organization. It helps the organization in defining its objectives and the course of action aimed at realizing the organizational goals. The process requires the manager understand the current position of the organization and identify areas of improvement for better future of the organization (Chapman, Hopwood & Shields, 2007). The most important aspect of planning is creating a competitive advantage for the organization. Through reviewing the current strengths and weaknesses in an organization, the managers can determine the industry position about the competitors. The management of an organization should analyse competitors' weaknesses and craft marketing strategies that take advantage of such weaknesses.

Management accounting will be significant since it provides data on the past performance of the organization. This data will be critical in planning the model for future performance. It is also imperative to note that the managerial accounting helps in establishing the budgets

essential in the planning process. The process ensures that there is coordination between the short-term and long-term plans of the organization aimed at successful operations of the organization. The management process also involves harmonizing various plans into one general plan that guides the overall performance of the organization (Chapman, Hopwood & Shields, 2007). The approval of the planning process will require accounting information to make essential plans regarding sales, marketing and the overall spending plan for the organization.

Importance of controlling

Controlling is another critical component of managerial accounting. The process involves the comparison between achieved and planned performance in an organization. Management of organizations should be able to detect deviations from the plan and take appropriate corrective measures for the betterment of the organizational growth (Bhattacharyya, 2011). Management must have relevant control parameters and designing efficient finance processes to determining the controlling methods, systems and instruments.

Management accounting is useful in the control process since it draws up performance reports that compare the budgeted revenue for each responsibility centre. The control parameters are relevant since they warn the managers against some activities that are not according to the plan (Chapman, Hopwood & Shields, 2007). Identification of such events will be critical in ensuring that the goals and objectives of the organizations are achieved as scheduled. Accounting management also assists the control function of management by providing immediate action measures and problem identification.

Importance of decision-making

Managers are always required to make decisions regarding the daily processes in an organization. The process involves deciding the best solution from a set of different alternatives. The decisions made by the organizational management mean a lot to the planning and controlling process in the organization. Correct decision making requires a collection of right information and gathering the information in time (Bhattacharyya, 2011). Most of the valuable information is achieved through the company's accounting processes that give an insight to the managers on the quality of decisions to make.

Management accounting is necessary for the organization to determine what should be sold and how the sales will be made. Relevant cost analysis is important in making the sales decisions. Sales decisions require the organization to understand the production costs and sales and decide on the one with maximum benefits. It also helps to determine where an organization should focus the marketing efforts of an organization. Relevant cost analysis can also be essential in making decisions regarding the addition of product lines or discontinuation in some operations within the organization (Chapman, Hopwood & Shields, 2007).

Managerial accounting will also be necessary in making decisions regarding what products to sell. The organization is expected to make vital decisions concerning the choice of persons whom to sell their products. Such essential decisions are reached at through activity-based costing techniques. This process enables the management in determining the optimum activities required for effective production and determining the product line that best fits the organization. This process will help managers decide on promotional and advertisement modes that will lead to maximum profits for the organization.

Application in manufacturing firm

Managerial accounting can be easily integrated into the management process in a manufacturing firm. For instance, a manufacturing firm will have to make decisions that will

make maximum profits for the organization. The management is required to make a choice regarding the best product to manufacture that will ensure guaranteed profits for the firm. After deciding on the product to manufacturing, the management must also make decisions regarding the prices to charge for the products that will make the organization realize a competitive advantage over its competitors (Chapman, Hopwood & Shields, 2007). Price determination will be greatly influenced by the manufacturing costs and prices of raw material that will make cost accounting very critical. Managerial accountants will be required to perform a cost analysis for certain products and divisions. Varied and fixed costs incurred in the manufacturing process will be essential in price and product determination in the manufacturing process. Critical information from the managerial accountants is essential in planning, controlling and decision-making functions in a manufacturing organization.

References:

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- Chapman, C., Hopwood, A., & Shields, M. (2007). *Handbook of management accounting research*.
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In submitting this work, I affirm that my work adheres to the scholarly and intellectual standards of honesty and integrity. I affirm that this work is my work only and that in the preparation of this work I have not consulted any person. I affirm that I have not plagiarised or misrepresented the ideas or language of someone else as my own and that I have fully and accurately attributed any ideas or text of others to the sources and documented each source.