

Nicoleta Angheluta

Student number: 1914622

Lecturer: Riaz Bahtti

## Accounting fundamentals Assessment 2

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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”.

## Question 1

(A) Calculation of the break-even point (in units and revenues) of the Sandals for Solent Ltd.

Given,

Selling price of the sandals is £5.75

Variable costs:

Direct Labour cost- £1.35

Direct Materials costs- £1.75

Other Direct costs- £0.40

The fixed costs £180,000 and the company currently sells 90,000 units

**Break-Even point** (units) formula = Fixed Costs ÷ (Sales price per unit – Variable costs per unit)

Fixed cost = £180,000

Total variable cost per unit = (Direct Labour cost- £1.35 +Direct Materials costs- £1.75  
+Other Direct costs- £0.40)

= £ 3.5

Sales price per unit= £5.75

So, the break-even point in unit= £180,000÷ (£5.75-£3.5)

= £180,000÷ £ 2.25

$$= 80000 \text{ unit}$$

Break-even point in revenues= fixed costs ÷ (contribution margin ÷ sales price per unit)

$$= £180,000 \div (£ 2.25 \div £5.75)$$

$$= £ 460000$$

B) Calculation of profit made on sales of 90000 units.

$$10.000 * £5.75 = 57.500$$

Total variable cost per unit= £ 3.5

Total variable cost of sales= 90000 unit × £3.5 (cost per unit)

$$= £ 315000$$

Total cost = (total fixed cost+ total variable cost)

$$= (£180,000 + £ 315000)$$

$$= £ 495000$$

Total profit = (sales revenues- total costs)

$$= (£ 517500 - £ 495000)$$

$$= £ 22500$$

C)

New improved sales unit =  $90000 + 5\% \text{ of } 90000 = 94500$  unit

New selling price will be =  $£5.75 + £.25 = £ 6$

New sales= £567000

New material costs =  $£ 1.75 + £ .15 = £ 1.90$

New labour costs =  $£ 1.35 + £.05 = £ 1.4$

Total variable cost per unit = (New material costs +New labour costs + other costs)

$$= (£ 1.90 + £ 1.4 + £0.40)$$

$$= £ 3.70$$

Total variable cost =  $94500 \text{ unit} \times £ 3.70 = £349650$

Total cost = (total fixed cost+ total variable costs+ new other cost)

New fixed cost=  $(£180000 + £12500) = £ 192500$

Break-even point  $192500 / 2.3 = 96.250$

Considering that the expected sales increase by 5%, to 94.500 units and the break-even point is 96.250 units, company does not make any profit.

D)

Break-even analysis is time consuming and is based on the assumption that the prices are constant, also it can be calculated on one product at the time.

## Question 2

A) In our days, in a competing market any business needs long term strategies in order to succeed. Management accounting provides exactly this and so much more. Management accounting helps businesses keep up with the market trends, consumers demands and

competition. Forecasts, income revenue are just tools that help the company leaders to project and sustain good prices and be profitable.

B) Management accounting provides relevant cost analysis, defines budgets and eases planning.

Cost Analysis determines expenses

Budget – management accountants analyse past activities and help future investment.

Planning - allows management accountants to create long-term policies.