

Accounting fundamentals LCBB 4001

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Question 1

Solent LTD

Product – Sandals

Selling price- £5.75

Direct labour- £1.35

Direct Materials- £1.75

Other direct costs- £0.40

Fixed costs- £180 000

Sales- 90 000 units

A) Selling price – Variable Costs = Contribution per unit

$$£5.75 - £1.35 - £1.75 - £0.40 = £2.25$$

$$\frac{\text{Fixed costs}}{\text{Contribution per unit}} = \text{Break Even Point}$$

$$\frac{180\,000}{2.25} = 80\,000 \text{ UNITS}$$

$$80\,000 \times £5.75 = £460\,000 \text{ Revenue}$$

B) Total Revenue - Total Expenses = Profit

$$90\,000 \times 5.75 = £517\,500$$

$$90\,000 \times (1.35 + 1.75 + 0.40) + 180\,000 = £495\,000$$

$$517\,500 - 495\,000 = £22\,500$$

C) Fixed Costs - £180 000 + £12 500 = £192 500

$$\text{Labour} - £1.35 + £0.05 = £1.40$$

$$\text{Material} - £1.75 + £0.15 = £1.90$$

$$\text{Other direct costs} = £0.40$$

$$\text{Selling price} £5.75 + £0.25 = £6$$

$$\text{Sales} - 90\,000 + 4\,500 = 94\,500 \text{ UNITS}$$

$$\text{Cost of Sales} = 94\,000 \times 6 = £567\,000$$

$$\text{Contribution per unit} = 6 - 1.40 - 1.90 - 0.40 = £2.30$$

Break even point in UNITS

$$\frac{192\,500}{2.30} = 83\,696$$

Profit

$$94\,500 \times 6 = \text{£}567\,000$$

$$94\,500 \times (1.40 + 1.90 + 0.40) + 192\,500 = \text{£}542\,150$$

$$567\,000 - 542\,150 = 24\,850$$

D)

Break even analysis are popular and used by many companies, however there are limitations to be considered.

Q2 (A)

Management accounting is not simple bookkeeping it is use for internal purpose where management think how we boost up our profit and what is impact of our policies on our business. Another key role of management accounting is to help managers decide on the prices of products, by providing all the information regarding costs, market factors, and profitability. Similarly, management accountants can help determine the lifecycle of current products and the viability of new products too. Management accounting provide us statistics and facts which is very crucial for business. It provide us models form which we can make decision how product or model enhance profit of company.

Management accounting is not for external purpose mainly .like Financial statement of company are not prepared in accordance with management accounting rules it is prepared according to law which is applicable in country. At the end we can say that management accounting help to introduce a way that how company can earn more and more profit.

Management accounting importance

Reviewing product

with the help of Management accounting tools or models management can easily evaluate whether this product provide profitability or not.

Launching new product

Management accounting is also help management to explore or invent which product is now days demand and how this product is to be supply in market within low and high quality budget.

Reviewing Market scope

Management Accounting also help company to review whole market in which company business is running. This help to find a new method, policies,

technology which ultimately enhance business profit.

Hiring or Retiring staff

Management Accounting also provide help to hire or terminate employs as with evaluation method management assess who is best and delivering profitable services to company

2(b)

- **Management must decide to** when, where and how much money to spend centered on financial data.
- Using standard capital budgeting, such as internal rate of return and net present value, to help **decision makers** decide whether to embark on costly projects or purchases.
- **management accounting** helps **managers in planning** by providing reports which estimate the effects of alternative actions on an enterprise's ability to achieve desired goals
- **Managerial accounting** can be used in short-term and long-term **decisions** involving the financial health of a company
- **Managerial accounting** helps **managers** make operational **decisions**—intended to help increase the company's operational efficiency—while also helps in **making** long-term investment **decisions**.

