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Module Title Code: LCBB4001
Module Title: Accounting Fundamentals Assessment -2
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MODULE CODE: LCBB4001
ACCOUNTING FUNDAMENTALS

HAND OUT DATE: 09:00 (UK Time) , 8th January 2021
SUBMISSION DEADLINE: 16:00 (UK Time), 8th January 2021

Instructions to Candidates:

Answer all questions.

During the assessment, students are not allowed to show, share by any other means, or discuss the questions or their work and answers to/with anyone. Students may not consult with any other person regarding their assessment, check their answers with any person or discuss any of the materials or concepts relating to the module and the assessment with any person.

All answers will be processed through Turnitin and scrutinised for plagiarism including peer plagiarism.

Answer papers must include a cover page with the following statement:

"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".

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QUESTION 1

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

- (d) Discuss the limitations of break-even analysis. **[15 marks]**

QUESTION 2

- (a) Discuss the importance of management accounting, and how it differs from what financial accounting provides. **[25 marks]**
- (b) Discuss three techniques by which the management accountant can achieve the objectives of management accounting. **[25 marks]**

QUESTION 1

Answer: a) Calculate the break-even point (in units) of product A for Walk About Ltd.

We Know,

Break-Even Point (Units) = Fixed Costs ÷ (Revenue per Unit – Variable Cost per Unit)

$$= £350,000 ÷ (£11 - £6)$$

$$= £350,000 ÷ £5$$

$$= 70000 \text{ Unit}$$

So, the break-even point is 70,000 units.

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

Total Revenue of 75,000 units would be (£11 X 75,000) = £825,000

Total Variable costs of 75,000 units would be (£6 X 75,000)

$$= £450,000$$

Cost of Goods sold would be Fixed costs + Variable costs

$$= £350,000 + £450,000$$

$$= £800,000$$

We Know,

Profit = Revenue – Cost of Goods Sold

$$\text{Profit} = £825,000 - £800,000$$

$$= \textbf{£25,000}$$

So, the profit is £25,000 on sales of 75,000 units

(c) New variable costs would be (£6+ £1) = £7

So, total new Variable costs for 80,000 units would be (£7 X 80,000) = £560,000

Total new fixed cost for 80,000 units would be (£350,000+£10,000)

= £360,000

Total new Revenue for 80,000 units would be (£13 X 80,000)

= £1,040,000

Cost of Goods sold would be Fixed costs + Variable costs

= £360,000+£560,000

= £920,000

We Know,

Profit = Revenue – Cost of Goods Sold

Profit = £1,040,000 - £920,000

= £120,000

So, new profit for the improved product is £120,000.

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

The break-even point (BEP) is the point at which total cost and total revenue are equal. At this point there is no profit or no loss. Breaking even is often seen as an important stepping stone for businesses, especially in their early years when struggling to survive might be more important than earning substantial profits. As long as a firm can avoid making losses, breaking even is often seen as a bare-minimum target to be aimed for. In this case, the level of sales or output needed in order to achieve this break-even level will be useful knowledge.

Knowing how many units of output have to be produced and sold will give managers something to plan for in terms of organizing purchases of materials, knowing how much labor may be required, and whether or not the assets (eg machinery) of the business are adequate to reach this level of production. In order to calculate the break-even level of production, we need to introduce the concept of total revenue.

Though the break-even analysis is very important, but it has some limitations also which are as follows:

(i) In the break-even analysis, we keep everything constant. The selling price is assumed to be constant and the cost function is linear. In practice, it will not be so.

(ii) In the break-even analysis since we keep the function constant, we project the future with the help of past functions. This is not correct.

(iii) The assumption that the cost-revenue-output relationship is linear is true only over a small range of output. It is not an effective tool for long-range use.

(iv) Profits are a function of not only output, but also of other factors like technological change, improvement in the art of management which have been overlooked in this analysis.

(v) When break-even analysis is based on accounting data as it usually happens, it may suffer from various limitations of such data neglect of imputed costs, arbitrary depreciation estimates and inappropriate allocation of overheads. It can be sound and useful only if the firm in question maintains a good accounting system.

(vi) Selling costs are especially difficult to handle break-even analysis. This is because changes in selling costs are a cause and not a result of changes in output and sales.

(vii) The simple form of a break-even chart makes no provisions for taxes, particularly corporate income tax.

(viii) It usually assumes that the price of the output is given. In other words, it assumes a horizontal demand curve that is realistic under the conditions of perfect competition.

(ix) Matching cost with output imposes another limitation on break-even analysis. Cost in a particular period need not be the result of the output in that period.

Question- 2

Answer: (a) Management accounting, also called managerial accounting or cost accounting, is the process of analyzing business costs and operations to prepare internal financial report, records and account to aid managers' decision making process in achieving business goals. In other words, it is the act of making sense of financial and costing data and translating that into useful information for management and officers within an organization.

Management accountants (also called managerial accountants) look at the events that happen in and around a business while considering the needs of the business. From this, data and estimates emerge. Cost accounting is the process of translating these estimates emerge. Cost accounting is the process of translating these estimates and data into knowledge that will ultimately be used to guide decision-making.

The main difference between financial and managerial accounting is whether these is an internal or external focus. Financial accounting focuses on creating and evaluating financial statements that will be reported externally, like creditors and investors.

In contrast, managerial accounting analyses and results are kept in-house for business leaders to use to drive decision-making and run the company more effectively. Managerial accountants handle many facets of accounting. These include margins, constraints, capital budgeting, trends and forecasting, valuation and product costing.

Financial accounting focuses on the company as a whole. Management accounting provides detailed and disaggregated information about products, individual activities, divisions, plants, operations and tasks. Managerial costing time line used with permission by the author A. van der Merwe.

Managerial accounting is used strictly for internal purposes, while financial accounting provides financial information based on accounting standards. Managerial accounting frequently looks ahead, while financial accounting offers analysis of historical data.

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

Major three techniques of management accountant for achieve objectives:

1. Financial Planning: Financial planning is the act of deciding in advance about the financial activities necessary for the concern to achieve its primary objectives. It includes determining both long term and short-term financial objectives of the enterprise, formulating financial policies and developing the financial procedure to achieve the objectives.

The role of financial policies cannot be emphasized to achieve the maximum return on the capital employed. Financial policies may relate to the determination of the amount of capital required, sources of funds, govern the determination and distribution of income, act as a guide in the use of debt and equity capital and determination of the optimum level of investment in various assets.

2. Analysis of Financial Statements: The analysis is an attempt to determine the significance and meaning of the financial statement data so that a forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities and profitability of a sound dividend policy.

The techniques of such analysis are comparative financial statements, trend analysis, cash funds flow statements and ratio analysis. This analysis results in the presentation of information which will help the business executives, investors and creditors.

3. Historical Cost Accounting: The historical cost accounting provides past data to the management relating to the cost of each job, process and department so that comparison may be made with the standard costs. Such comparison may be helpful to the management for cost control and for future planning.

(x) Because of so many restrictive assumptions underlying the technique, computation of a breakeven point is considered an approximation rather than a reality.

END PAPER

