

Accounting Fundamentals
(LCBB4001)
Assessment 2

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QUESTION 1

a) Calculation the break-even point for product A for Kerrigan Ltd

selling price is 11

variable cost is 6

	Amount
Selling price	11
Variable cost	6
Contribution	5
Fixed cost	350000
BEP (In units)	FC / Contribution
	350000/5
	77000
BEP (In Rs.)	£770,000

Contribution margin = (Sales price per unit - Variable cost per unit)

11 - 6 = **£5 contribution**

Break-even point(units) = Fixed cost/Contribution margin

350,000/(11-6)

350,000/5 = **£70,000 units**

Break -even point(revenue) = Sale price x Break -even point(units)

11*70,000 = **£770,000**

b) Profit made on sales is 75000

	Amount
Selling price	11
Variable cost	6
Contributio	5
No. of units	75000
Contribution	375000
Fixed cost	350000
Profit	25,000

Total revenues $11 * 75,000 = £825,000$

Variable cost $6 * 75,000 = £450,000$

$825,000 - 450,000 = £ 375,000$ contribution cost

$375,000 - 350,000 = \textbf{£25,000 profit}$

c) advertising campaign costs £10,000

variable cost per unit $£6 + £1 = £7$ selling price $£13$

	Amount
Selling price	13
Variable cost	7
Contributio	6
No. of units	80000
Contribution	480000
Fixed cost	360000
Profit	120000

Total revenue $13 \times 80,000 = 1,040,000$

Variable costs $7 \times 80,000 = 560,000$

$1,040,000 - 560,000 = \text{£}480,000$ **contribution**

Fixed costs = $350,000 + 10,000$

Fixed cost = £360,000

Profit = $480,000 - 360,000 = \text{£}120,000$

Profit will be £120,000

d) Limitations of break-even analysis :

- In Break even analysis sales as well as the variable cost remains constant, however this is not possible in the normal practice.
- Projections are based on the past for the future events also, as all the functions remain constant. However it is not possible in normal practice.
- The assumption that cost-revenue-output relationship remains constant is not effective in the long range, so it is suitable only for a small range of output.
- While calculating with reference to break even analysis there is no provision for corporate as well as income tax.
- It always assumes that there is perfect competition in the market.
- It will always assume that the technology will never upgrade and will remain the same as well as no change in the efficiency of labour.
- In practical life the break even analysis having so many restrictive assumptions is always considered as an estimated value and not reality.

QUESTION 2

a) Importance of management accounting.

Management accounting: It is very different from financial accounting. Management accounting is nearly related to helping the managers to make decisions in an organisation. Management accounting is very necessary in every organisation as well as a valuable tool. According to CIMA Management accounting has been defined as follows: It is the process of analysing, identification, Communication and interpretation as well as controlling of information in an organisation. It has a great impact on both types of stakeholders that is internal as well as external.

Financial accounting: Financial accounting is basically an accounting which summarises the business operation for a given period of time and the time period can be yearly. Moreover the companies make their financials for a period between 1 April to 31 March that is one year. It will reflect the company's accounting based on accrual basis concept.

DIFFERENCE BETWEEN THE MANAGEMENT ACCOUNTING AND FINANCIAL ACCOUNTING.

S. no.	MANAGEMENT ACCOUNTING	FINANCIAL ACCOUNTING
Meaning	It provides pertinent information to the managers of the organisations to make crucial managerial decisions	Its major area of focus is the financial accounts preparation such as to provide the organisation the relevant information related to finance and to make financial decisions.
Compulsory	It depends upon the organisation whether to make or not.	Financial accounting is very important for every type of organisation.
Presentation of information.	It reflects information of both monetary as well as non monetary.	It will present information only which is reflected in money terms.

Objective	It is helpful only to internal management of the company or the organisation.	Helps the outsiders by providing information regarding the financials of the company.
Format	It does not have any specified format.	It is prepared in a specified format.
Users	It is used by only internal parties to the organisation.	It is used by internal as well as external parties.
Time	As per the need of the organisation.	For a period of one financial year that is 1 April to 31 March.

b) Three techniques by which the management accountant can achieve the objectives of management accounting are as follows:

Analysis of Financial Statements: The analysis of financial statements is done in order to make decisions in the future and forecast can be made towards the future earnings as well as spending, the organisation's ability to pay its debts and to distribute dividends to the employees and shareholders of the company. External stakeholders often use this technique of management accounting to take a look and understand the overall health of the company and to know where the organisation or the company stands in terms of financial values. It will help management accountants for managing the finance as per the organisation conditions.

Historical Cost Accounting: It presents the data of the past and on the basis of the past data comparison can be made easily with the future and the present data. This analysis will help the organisation to make required changes which will help them to grow in the near future. This will always consider the value of assets at its original price at the time it was acquired and do not consider the depreciation in the value of assets. The changes occurring in the value of any type of assets are not taken into consideration while the organisation and its accountants make use of this technique in real life scenarios.

Budgetary Control: This technique of management accounting helps to plan and control various activities of the organisation. It is very helpful in making decisions which are long lasting and have a great impact on the present as well as future situation of the organisation. This also helps to compare the performance of the organisation's budget as well as the actual performance of the organisation. There are various features of budgetary control which are as follows:

- It helps the management to coordinate functions of various departments within the organisation.
- It helps in maximizing the profits by the use of appropriate resources.
- It helps the employees to communicate various objectives, policies and procedures to other employees in the organisation which will provide a clear understanding of organisations goals and objectives.
- It helps in gaining information to the managers regarding the availability of resources which can be utilized at a proper time.
- Budgets help the organisation to compare the actual performance with the budgeted performance and the areas of investment and the areas in which the managers need to work.