



LOCATION: LONDON

LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

**EXAMINATION PERIOD
JUNE 2021 TERM**

**CYFNOD ARHOLIADAU
MEHEFIN 2021 TYMOR**

**MODULE CODE: LCBB4001
COD Y MODWL: LCBB4001
ACCOUNTING FUNDAMENTALS**

TIME: 9:00AM TO 4:00PM

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QUESTION 1

Kerrigan 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 Kerrigan Ltd. **[10 marks]**

Break-even point = fixed cost/contribution per unit

Contribution per unit = selling price per unit – variable cost per unit

Contribution per unit = $11 - 6 = 5$

BEP = $350,000 / 5 = 70,000$

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

PROFIT = (current sales unit – break-even point) x contribution per unit

Profit = $(75,000 - 70,000) \times 5 = 25,000$

- (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]**

New Profit = (new current sales per unit – new break-even point) x new contribution

New current sales 80,000

New break-even point $(350,000 + 10,000) / 7 = 60,000$

New contribution = $13 - 7 = 6$

New profit = $(80,000 - 60,000) \times 6 = 120,000$

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

- unrealistic assumptions
- because of so many restrictive assumptions underlying the technique, computation of a breakeven point is considered an approximation rather than a reality
- sales are unlikely to be the same as output
- variable cost do not always stay the same
- ignores competitions

QUESTION 2

- (a) Discuss the importance of management accounting, and how it differs from what financial accounting provides.

[25 marks]

Management accounting is required to recognize the financial situation of the business, it reports to those inside the organization for planning, directing, motivating and controlling and performance evaluation. It is needed to prepare plan.

Importance of management accounting:

- Help in making plans
- Assist in decision making
- Measures the performance
- Increases the efficiency
- Better service to customers
- Raises the profitability
- Provides reliability

Management is also responsible for the formation and implementation of business policies and strategies.

Financial accounts is used to present the financial health of a company to external stakeholders, this allows the board of directors, stockholders, potential investors, creditors and financial institutions to see how the company has performed during a specific period of time in the past.

- The information mostly historic in nature and is verifiable
- Financial account is not dependent on the result of management accounting
- records, classifies, analyses, and summaries the financial affairs of a company
- Only looks at the financial data
- Highly regulated so might not meet needs

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

[25 marks]

Break-even analysis is a method that is used by most of organization to determinate a relation between costs, revenue and their profits at different levels of output.

It helps in determination the point of production at which revenue equals the cost. break even analysis is also called as profit contribution analysis. Break-even point refers to the point where total cost is equal to total revenue; it is the point of no profit no loss. This is also minimum point of of production where total cost are recovered, if sales go up beyond the break point, the organization makes a profit, if they come down, loss is incurred.

Cost control – marginal costing is most useful techniques available to the management, it guides the management in pricing, decision making and assessment of profitability, it reveals the relationship between cost, volume of sales and profit. It classifies costs into fixed and variable and only variable costing or incremental costing.

Budgeting – the management accounting uses the tool of budgetary control for planning and control of the various activities of the business. Budgetary control is an important technique of directing the business operations in a desired direction, achieves a satisfactory return on investment.

END