

ACCOUNTING FUNDAMENTALS

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Question 1

A.

The current selling price of Kerrigan Ltd is £11 and the total variable cost per unit is £6. According to this question, fixed cost production is about £350,000. This firm currently sells product 75,000 units.

i) Contribution per unit =

Selling price per unit- Variable costs per unit

Contribution per unit=

11 -6= £5

Break- even point = Fixed Cost/contribution per unit = 350000/5 = 70,000 units

ii) Break-even Point (Revenue)= (Total Fixed Cost/Contribution as to sales ratio)

Contribution as to sales ratio= £5/£11= £0.4545 per unit

BEP is (£350000/0.4545)=£770077

B.

The profit amount made on the sales of 75,000 units

Sales = 75 000unitsx 11= £825000

Costs

*Vc=75000*6=(450000)*

Fc= (£350000)

Profit= Sales-(VC+FC)

=825000-(450000+350000)

=825000-800000

=£25000

C.

This company makes an advertising campaign at £10,000 and improving their product specification. For this reason, the variable cost per unit increases by £1. The increased selling price to £13 and sales is expected 80,000 units.

New selling price = £13

New variable costs = £7 (6+1)

new contribution = (13-7)=£6

New fixed costs = £360000 (350000+10000)

New sales volume = 80000

New BEP = New fixed cost/New contribution

= (360000/6) units

=60000

Profit = (New Sales Volume - New BEP) X New contribution

(80000 - 60000) X 6 = £120000

D.

This question is related to the discussion of the limitation of break-even analysis. It is a supply-side analysis that tells about the sales that are likely to be for any kind of product. The other type of products is not considered in this context. On the other hand, this analysis is concerning the fact that competitors are not included in such an equation. The new entrance into the market can create a huge effect on the demand for products. Such changes can be a cause of changes in the price of products (Batkovskiy *et al.* 2017, p.558).

The non-linear relationship cannot be identified by using such analysis. The amount of products sales and the overall prices of such products cannot figure out from such a perspective. At the moment a firm deals with multiple products then it creates a problem for them. That is because using such analysis they can evaluate the performance of one product. For this reason, it takes a huge amount of time to specify the changes. Sometimes, the analysis can assume the factors related to this field. For this reason, it also creates issues to understand the real events.

Question 2

A

Importance of management accounting

Management accounting is the most important part of a business organization. Using several tools and techniques one can perform several types of jobs that can be necessary for the betterment of an institution. Through this system, one can ***be making plans*** for future activities. It can supply different financial and non-financial data to the authority regularly.

It can assist the management in ***decision-making*** to identify several facts related to the business functionality. Such accounting can present the analytical information within the organization to provide the critical status. By using several tables, graphs, charts, authority can be presented data in a simple manner (Rikhardsson and Yigitbasioglu, 2018, p.37).

This is an integral part of any business organization to provide several types of information related to the economic structure. It helps to ***measure the performance*** of this firm and its staff members. The variable analysis can identify the changes within the firm and their impact on their performances. For this reason, such managerial accounting is necessary for each company.

Difference between financial accounting and management accounting

Financial accounting is preparing the present and accurate depiction of financial affairs. On the other hand, management accounting is used to assist management to create an effective decision related to the development of the business. The financial report has to be prepared for analyses, summarized, and records related to the economic status of the firm. Management accounting can deal with the internal affairs of an organization while financial one can deal with both internal and external factors. Financial accounting can be necessary to perform the financial analysis based on the outer performance of any institution. The overall operations are being included in it.

B.

Discussion of techniques used in management accounting

Different types of techniques are being used in this case to perform management accounting. In this present context, people are focusing on the break-even analysis, budgeting, capital investment appraisal.

Break-even analysis

The margin of safety is related to the revenue collected and associated cost amount measured through such type of analysis. Through this analysis, the firms can show the number of sales that can be paid for the cost of products to serve the business. Based on the revenue and expenses the

firm can make a proper decision to improve its performance. It essentially reveals the points of new products and their overall performance in the market to earn more profit. The fixed cost is also included in this analysis to identify the regardless of units are sold. The revenue price of selling products can minimize the variable cost of the products like labor charge, raw materials, and so on. To identify all such aspects one can apply this type of analysis for getting an accurate result of their performances.

Budgeting

This is a plan through which one can spend an amount of money in some particular field. Each organization creates a plan to serve its purposes that can help them to maintain its performance in the market. This is necessary for them to reach their financial goal (Chouhan *et al.* 2017, p.135). In any case, they do not perform such a plan properly then they can face several problems in the market and they also can faces loss. For this reason, budgeting is an important tool for management accounting.

Capital investment appraisal

This is another technique of management accounting to perform their job properly. It is preliminarily a planning process through which one can facilitate the determination of the firm's investment policies. Such a plan can be on a long-term basis or a short-term basis. It can relate to several factors that are based on the priorities of stakeholders and decision-makers. Without their opinion, the authority cannot perform their plan of development.

References

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