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University of Wales
Trinity Saint David

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ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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Question 1

(a)

Units of break-even point = Fixed cost / Selling price – variable cost

Units of breakeven point = 350,000 / 11 – 6

Units of breakeven point = 70,000 units.

Revenue of break-even point = Fixed cost / contribution margin ratio

Contribution margin ratio = Contribution margin / selling price

Contribution margin ratio = 5 / 11 x 100 => 45%

Revenue of breakeven point = 350,000 / 45 x 100

Revenue of breakeven point = £777,777

(b)

Total sales = 75,000 x £11 = £825,000

Variable cost = 75,000 x £6 = £450,000

Contribution margin = £375,000

Fixed cost = £350,000

Profit = £375,000 - £350,000

Profit = £25,000

(c)

Total sales = 80,000 x £13 = £ 1,040,000

Variable cost = 80,000 x £7 = £ 560,000

Contribution margin = £ 480,000

Fixed cost = £350,000

$$\text{Profit} = \text{£}480,000 - \text{£}350,000$$

$$\text{Profit} = \text{£}130,000$$

(d)

Limitations of breakeven analysis are defined below:

Doesn't predict demand: While a break-even analysis can tell one when a plane is crashing, it does not give one an idea of how likely it is to happen (Maheshwari, Maheshwari and Maheshwari, 2021). Demand is also volatile, so even if one thinks there is a gap in the market, their returns may be much higher than they originally thought.

Depends on reliable data: In short, the accuracy of the break-even analysis depends on the accuracy of the data. If their calculations are incorrect or face variable costs, the break-even analysis may not be the most useful tool in their arsenal.

Too simple: Break-even analysis is more suitable for companies with prices. If one has multiple products with different prices, it may be that their balance is too easy to meet their needs. It should also be borne in mind that costs may change, so violations may need to be assessed and corrected later (Fabozzi et al., 2021).

Ignores competition: Another limitation of the break-even analysis is that competitors are not included in the equation. New entrants can influence the demand for their product or force a price change, affecting the breakeven point.

Unrealistic assumptions: Products are not sold at the same price at different market levels; fixed costs vary with changes in production. Sales are unlikely to be the same as production volume; inventories may increase or have abnormal output. Variable costs are not always the same. For example, as production increases, the company can take advantage of the opportunity to buy inputs at a lower price (purchasing power) and thereby reduce the variable costs per

production unit (Turtle and Wang, 2017). Most companies sell more than one product, so it isn't easy to calculate the company's breakeven. Breakeven analysis should be seen as a planning tool and not as a decision-making tool.

Question 2

(a)

Management accounting helps companies better plan their future operations. It regularly provides management with all financial and non-financial information. With all this information, managers can better analyse and predict and thus make the right plan. Management accounting plays an important role in making effective decisions (Ostanaqulov, 2018). It collects and analyses the financial information available throughout the organisation and presents it in graphs, tables or simplified graphs. Managers have a better understanding of the organisation's activities and can make the right decisions at the right time.

Management accounting monitors and measures the overall performance of the organisation. It uses various tools, such as variance analysis, which measures its performance against pre-determined standards to detect deviations (Ostanaqulov, 2018). The CEO may take appropriate action to correct discrepancies in the company's operations. The goal of this accounting profession is to improve the overall performance of business associations. Management accounting sets goals for each department and checks whether the goals are achieved in each project. This ensures that all resources are fully utilised and helps to improve efficiency (Yadav and Avhad, 2020).

Management accounting aims to improve customer service by offering a good product at a reasonable price. This makes it possible to control the price of the product with cost control equipment. In addition, it has set various quality standards that organisations must adhere to in

the production of their products. It plays an effective role in improving the profitability of the organisation. This makes the company cost-conscious and helps to avoid additional costs. Management accounting uses methods such as budgeting and capital planning to reduce costs and increase profits (Avramov, Kaplanski and Subrahmanyam, 2018). Management accounting improves the reliability of management decisions by providing management with reliable information. Use appropriate scientific analysis tools and techniques to help managers conduct business properly. The purpose of management accounting information is to help the organisation's management make sound business decisions.

The main purpose of financial accounting is to send information to third parties. External parties include lenders, investors, customers, etc. Therefore, its main purpose is to help investors make sound decisions (Dunn, 2018). This is the duty of the government for all public organisations. As a result, they are governed by the Accounting Standards Board, the Companies Act and the government. The financial statements are prepared following generally accepted accounting principles (GAAP) (ODO, 2018). These GAAPs vary from country to country and serve almost the same role. The period of financial accounting is long gone. This is usually the reporting year and it applies to third parties or third parties.

External parties, such as shareholders, suppliers, customers, governments, banks, etc. The financial statements include the income statement, the balance sheet and the cash flow statement. In most countries, independent accounting audits are mandatory (Campebell, 2019). For example, in the United States, these audits are performed by certified public accountants and auditors who perform audits in India. It affects the whole company, and it is a goal in itself. Therefore, in some countries/regions, some accounting standards require companies to prepare industry-specific reports (Umbach, 2018). The information required for financial reporting is financial.

This purpose is different from financial accounting in general; management accounting information is designed to enable managers to make informed business decisions. There is no mandatory requirement, but it is still CIMA, ICWAI and other organisations (Deegan, 2019). There is no standard basis for preparing management reports. Therefore, they are developed according to the requirements of the management team. It does not have a specific timeline, but it is forward-looking (Gomez, 2019). Reports made as part of management accounting are useful for internal parties, such as CEOs, directors, project managers, senior executives, etc.

An accounting management report is a monthly, weekly or annual analysis of products, regions, operations, etc. 100% of management accounting data may not be verified (Florou, Kosi and Pope, 2017). Therefore, data must be relevant, timely and logical. For example, no one can accurately predict sales. No special requirements are made for independent reviews. However, managers can decide for themselves to manage risk independently for effective and efficient management. Managers use management accounting reports, and confidentiality of reports is a major issue (Hutton, 2017). This is because they contain trade secrets. On the other hand, it is a special area or subdivision that is to be analysed. Therefore, the sub-division can be product line, geography, production unit, etc. Financial and non-financial information is used in the preparation of management reports.

Differentiating Factor	Financial Accounting	Management Accounting
Scope	Financial Accounting prepares reports regarding the organisation as a whole.	Management Accounting prepares reports regarding various segments of the organisation.

Managerial Jurisdiction	No scope for applying managerial jurisdiction.	There is scope for applying managerial jurisdiction.
Nature	Quantitative in nature.	Qualitative in nature.
Use of Data	Deals with actual data.	Deals with both actual and estimated data.
Reporting	Provides reports regarding the profitability of the organisation.	Provides reports suggesting ways to increase profitability for the organisation.
Objective	Communication of financial information.	Assist in decision making.
Guidelines	IFRS, IAS, etc.	Not specified.
Focus	Evaluation of past performance.	Predicting or forecasting future performance.
Frequency	Prepared quarterly, half-yearly annually.	Prepared as per requirements.
Interested parties	External parties.	Internal parties.

(b)

Three different techniques through which the management accountant can achieve the objectives of management accounting.

Product Costing and Valuation

The cost of the product is related to determining the total cost of manufacturing the product or service. Cost accounting is used to measure and determine these costs and determine the indirect costs for each product their company creates (Hutton, 2017). The management accountant calculates and allocates costs to estimate the total costs associated with the production project.

Indirect costs can be allocated according to the production volume or other production factors (such as the installation per square meter). In addition to costs, auditors use direct costs to estimate the exact value of goods and inventory at different production stages. Marginal cost (sometimes called cost-quantity-benefit analysis) adds a unit of production to the cost of a product (Sayadi Somar et al., 2018). Profitability analysis is a balanced analysis that involves calculating the profitability contribution to sales structure to determine the number of units for which the company's total sales are equal to its total costs. Cost-benefit analysis is useful for pricing products and services.

Cash Flow Analysis

The Management Accountant performs a cash flow analysis to determine the financial impact of business decisions. Most companies register their financial information together. Although the income statement reflects the actual financial position of an entity, it is also difficult to assess the actual financial impact of individual financial transactions (Sayadi Somar et al., 2018). Auditors' management can implement working capital to maximise cash flow and ensure that the company has sufficient liquidity to repay current liabilities. When analysing cash flows, the auditor considers cash flows or outflows of specific business decisions. For example, if the manager plans to buy a company car, he can buy the car or get a loan immediately (Hutton, 2017). With the help of department heads, managers can manage different situations by emphasising the full cost of cash purchases and the cost of cash at different interest rates during the loan period.

Budgeting, Trend Analysis, and Forecasting

The budget is widely used as a quantitative expression of the company's work plan. Auditors use performance reports to record deviations from the actual budget results. Analyse positive or negative budget differences, also known as budget differences and actual data, to make

appropriate future changes. The managing director analyses and explains the investment decisions (Florou, Kosi and Pope, 2017). Managing accounting involves checking quotes, determining the demand for goods or services, and finding appropriate ways to finance purchasing.

Management accounting also involves analysing certain cost trends and checking for changes or abnormal changes. This accounting department also uses historical information to calculate and predict future financial information. Management accounting can help analyse and record financial information that their business can use to improve efficiency and productivity. Provide regular financial information using easy-to-understand methods, such as standard costs, profit estimates, project estimates, and audit trail calculations (Deegan, 2019). However, information management needs to make decisions entirely based on accounting. In addition to many shortcomings, it is also a useful tool for better operating a business.

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