

Accounting Fundamentals

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Question 1.

Breakeven point

Breakeven point in Units = Fixed Cost / Contribution per unit

Fixed Cost (£) = 180000

Contribution per unite = Selling price per unit – Variable Cost per unit

Selling price per unit (£) = 5.75

Variable Cost Per Unit (£) = Direct Labour + Direct Material + Other Direct Cost

1.35 + 1.75 + .40

3.5

Contribution Per Unit (£) = 5.75 – 3.5

2.25

Breakeven point in unit = £ 180000 / 2.25

80000 Units.

Breakeven Point in Amount (£) = Breakeven point in unit * Selling price per unit

80000 * 5.75

460000

Profit made on sale

Profit = Sales – Total Cost of production

Sales (£) = 517500 (90000 * 5.75)

Variable Cost (£) = 315000 (90000 * 3.5 {1.75 + 1.35 + .40})

Fixed Cost (£) = 180000

Profit (£) = Sales – Variable Cost – Fixed Cost

517500 – 315000 – 180000

22500

New profit figure

New Strategy	Existing	New
Increase in sales price	5.75	6
sales unit	90000	94500

Calculation of Profits		
Units		94500
Sales	6	567000
Variable Cost		
Materials	1.9	179550
Labor	1.4	132300
Other direct costs	0.4	37800
Contribution		217350
Advertising		12500
Fixed Cost		
Production		180000
Profit		24850

Interpretation: Company must go for advertising as company could deliver more profits after the strategic planning process. The advertising would allow company to generate more return in comparison with its prior situation.

Limitations of Breakeven Analysis

Following are the points denote about the limitations of Breakeven Analysis.

Difficult to cost differentiation: Breakeven analysis is associated with many limitations. Difficulty in identifying which one is fixed cost and which one is variable is probably one of

the major difficulty associated with the analysis model. It becomes very difficult to differentiate the cost in variable and fixed. Even from the small mistake in cost assessment entire result of breakeven point gets changes.

Confusions in semi variable cost: Semi variable cost is all such costs that are partially fixed in nature and partially variable in nature. Semi variable cost create huge confusions in the financial analyst while contribution for breakeven point assessment. Semi variable cost always creates confusion in the mind of analysis while calculating breakeven point for assessment purpose.

Complicated calculations: The calculation of breakeven point is also complicated. It requires experience and professional knowledge to calculate the breakeven point of company. In case of any error it can create wrong conclusion for the company.

The above mentioned limitations are some of the major limitations associated with the breakeven analysis.

Question 2.

Significance of management accounting

Management accounting is an accounting techniques used by management and board of directors to make business decisions. This is the accounting which management do along with the regular accounting in company. This involves capital budgeting, budget analysis, ratio analysis, inventory valuation and all other such analytical factors related to the financial position of company (Abernethy and Wallis, 2019). All these analysis allows company to take investment decision; it improves the profit making opportunity of company and many other aspects that can allow the management to increase the growth potential of company in market. Shareholders of company do not have much interest in management accounting as it do not project the actual financial position of company it only allows the management in taking the best decision for the business. Management accounting helps in making the best decision for business and improves the profitability of company.

Techniques of Management Accounting

Following are the techniques used in management accounting.

Margin analysis: Margin analysis is more like increasing benefits from increased production of company. Many times company take decisions to increase the profitability of company by increasing the overall production of company. Increased production allows company to increase its profitability to improve the revenue potential of company.

Trend analysis: Trend analysis is all about analysing the trend in market. Trends related to the cost, product cost and other associated trends are assessed in this area (Mokhtar, Jusoh and Zulkifli, 2016). Management accounting allows company to control the cost of production so that overall profitability of company can be improved.

Capital Budgeting: Capital budgeting is all about making the investment decision of company. This technique support company in taking the best decision in relation to investment proposals available for company (Taschner and Charifzadeh, 2020). Out of all different investment options company take the best decision for investment that can generate the best level of profitability.

Inventory valuation: Inventory valuation is about to identify the actual cost incurred with the production and inventory left at the end of financial year. This allows company to control the overall production cost and also to control the inventory company hold at the end of each financial year.

The above mentioned techniques are the part of management accounting.

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