



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

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LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

EXAMINATION PERIOD
JUNE 2021 TERM

CYFNOD ARHOLIADAU
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MODULE CODE: LCBB4001
COD Y MODWL: LCBB4001
ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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Date & Time : 27/08/2021 3:30 PM

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]

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 = 350,000/5 = 70,000 units

75,000 * 11 = 825,000 (-350,000 = 475,000)

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

Profit = (75,000 - 70,000) X 5 = £25,000

Sales = 75,000 units x 11 = 825,000

Costs

Vc = 75,000 x 6 = 450,000

Fc = 350,000

Profit = 825,000 – 450,000 – 350,000 = 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 selling price = 13
New variable costs = 7
New contribution = 6
New fixed costs = 360,000 (350,000 + 10,000)
New sales volume = 80,000

New BEP = 360,000 / 6 = 60,000

Profit = 1,040,000 - 560,000 - 360,000 = 120,000

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

Limitations may include:-

Non-linear relationships e.g., between sales price and quantity (may have to reduce SP to achieve sales beyond certain level?) things don't always go as planned.

Same issue for costs and quantities.

May only work within a relevant range

Not easy for multi-product firms. Also hard for one-off jobbing type firms – where every item produced is different. Same if you only make one of the item

Non-quantitative (qualitative) factors: business awareness/competitors actions etc customer service

QUESTION 2

(a) Discuss the importance of management accounting, and how it differs from what financial accounting provides.
[25 marks]

One of the objectives of management accounting is to assist management in the process of planning, control, and decision-making.

Need for management accounting

- o Integral part of management**
- o Provide financial and non- financial information**

- o Identification, generation, presentation, interpretation and use of information relevant to:
- o Formulating business strategy
- o Planning and controlling activities
- o Decision making
- o Efficient resource utilisation
- o Performance improvement and value enhancement
- o Safeguarding tangible and intangible assets
- o Corporate governance and internal control
- o Financial accounts insufficient due to:
- o Insufficient detail
- o Frequency of preparation
- o Highly regulated so might not meet needs
- o May not have range of information

Financial Accounting

The area of accounting that provides external users with relevant and timely information for their decision making.

Examples of financial information include; financial reports and general purpose financial statements.

The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions (IASB Framework).

Functions mainly concerned with recording, processing and presenting the information.

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

[25 marks]

1. Financial Planning:

Through financial planning, preliminary decisions are made about the financial activities that are necessary to achieve the main goals.

2. Cash Flow Statement:

The cash flow statement is very useful for long-term financial planning.

3. Funds Flow Statement:

The management accountant uses this technique in order to analyse the changes in the financial position of a business enterprise between two dates.

END