

LOCATION: LONDON

LEVEL 4

EXAMINATION PERIOD

JUNE 2021 TERM

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LEVEL 4

CYFNOD ARHOLIADAU

MEHEFIN 2021 TYMOR

MODULE CODE: LCBB4001

COD Y MODWL: LCBB4001

ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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Date & Time: 27/08/2021.

Time: 3:00PM

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]**

ANSWER:

Contribution: $11 - 6 = 5$.

Break-even point: $350000 / 5 = 70000$ units.

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

ANSWER:

Profit made: $75000 * 5 - 350000 = 25000$.

(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]**

ANSWER:

Fix cost: $10000 + 350000 = 360000$.

Variable cost: $6 + 1 = 7$.

Contribution: $13 - 7 = 6$.

New profit: $80000 * 6 - 360000 = 120000$.

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

ANSWER:

Break- even analysis is a practical and popular tool for many businesses. Break-even analysis is particularly relevant and important. Strengths of break-even analysis is focuses on how long it will take before it reaches profitability.

Question 2

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

ANSWER:

(a) According to Franklin et al. (2019) management accounting is important because it provides information for the company's decision making. This is because management accounting reflects the company's accumulated knowledge of past experiences and allows them to make better decisions in the future. The objective of managerial accounting is to create an integrated framework for decision-making, which includes management communication with stakeholders. It also provides a systematic means for managing various aspects of the business process.

Finance Accounting is important because financial accounting mainly focuses on reporting to investors and other external auditors that are external to the enterprise, while manager accounting generates information that is relevant only for managers inside the enterprise. Financial accounting provides detailed information about a company's financial position, including balance sheets and income statements in addition to analysis about how well those reports meet generally accepted accounting principles, or GAAP (Graybeal et al., 2019). These are two different types of accounts; therefore, there may be occasions where they conflict or contradict each other on certain matters.

Management accounting is more concerned with what is going on in the business and financial accounting is more concerned with what has happened in the past, it would be like comparing an insurance company's past losses to its current revenue (Franklin et al., 2019). When companies look at management accounting, they look at how well their employees are doing in both cost control and profit control which directly affect the company. The ways that management accounting differs from financial accounting can indirectly affect the company because there are many things that managers use to help make decisions such as budgeting of resources etc. This can affect the company in a positive or negative way depending on how the

manager makes use of the financial data. Management accountants are often analyzing data that is more qualitative than quantitative.

(b) Discuss three techniques by which the management accountant can achieve the objectives of management accounting. **[25 marks]**

ANSWER:

(b) There are many ways in which management accountants have been known to contribute to achieving effective management accounting objectives. Three specific techniques include providing cost data, preparing budget forecast reports as well as effectively communicating potential financial troubles for a company's future (Thieman, 2011).

Many business managers are somewhat reluctant to allocate funds to help provide better control and performance through management accounting initiatives (Thieman, 2011). Considering that, there are also many management accountants who will try to streamline their approaches in order to obtain more acceptable results through better management accounting. Preparing necessary reports like net income statements and balance sheet helps to show their manager what they have accomplished over time and what needs to be done for them to complete the job on schedule.

Another technique that is frequently employed by most management accountants is the use of cost data (Thieman, 2011). This technique often involves the gathering, recording and reporting of costs for which a different monetary amount could be used for its interpretation, but which might lead to more accurate financial information. Management accountants can then take cost data to be used in the preparation of budget forecast reports.

The third technique is communication. This is one of the most important aspects of management accounting, or any function within a company for that matter, as it will facilitate stronger ties between employees and management (Thieman, 2011). Aside from improving internal communications, this technique can serve as a means for any potential financial trouble for a company's future. One disadvantage though is that internal communications should not be seen as an end but rather as a by-product of effective management accounting. Communication is only going to bear fruit if there are sufficient actions taken in response to information obtained through management accounting.

References:

Franklin, M., Graybeal, P., & Cooper, D. (2019). Principles of Accounting Volume 2 – Managerial Accounting. 12th Media Services.

Graybeal, M., Cooper, P., & Franklin, D. (2019). Principles of accounting volume 1 – financial accounting. (Vol. 1). 12TH MEDIA SERVICES.

Thieman, W. J. (2011). Introduction to management accounting new miscounting with. Place of publication not identified: Prentice Hall.