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Accounting Fundamentals Assessment 2

In submitting this work, I affirm that my work adheres to the scholarly and intellectual standards of honesty and integrity. I affirm that this work is my work only and that the preparation of this work I have not consulted any person. I affirm that I have not plagiarised or misrepresented the ideas or language of someone else as my own and that I have fully and accurately attributed any ideas or text of others to the sources and documented each source.

Question 1- workings

- a) In accordance with the presented details from the question 1-point a), the overall fixed expenditure of the business was presented as £180,000 and the company currently sells 90,000 units accordingly. According to the basic costing principles, in order to compute the overall volume of business break-even point during the present accounting period, the evaluation of business need to follow the following formula positively (Sangster and Wood, 2017).

Those are enumerated as per below:

Break-even point (in units) = Fixed cost business / Contribution per unit

£180000/£2.25 per unit= 80000 units

Break-even point (in Revenue) = Fixed cost of business/ Profit volume ratio (£180000/ 39.13% =£460000(approx.)

Profit volume ratio of business= Contribution per unit/ Sales price per unit (£2.25 per unit/£5.75 per unit) x 100 = 39.13%

Sales are: £3.75

Total margins costs are: £1.35+ £1.75+ £0.40= £3.50

Contributions are: £5.75 – £3.50= £2.25

- b) In accordance with the provided details related to business selling price, marginal costing details, fixed cost volume and including the total volume of selling units, overall volume of business profitability level with the application of marginal costing principles resulted to follows:

Sales value= (90000 x £5.75) = £517500

Less: Total cost= 90000 x £3.50= £315000

Contribution= £517500-£315000= £202500

Net profit= £202500- 180000= £22500

In accordance with the computation the overall selling price on behalf of 90,000 units volume along with £5.75 per unit resulted to £517,500 additionally, along with the application of relevant business marginal and fixed expenditure volume the overall level of profitability of the business related to Sandals are resulted to a round £22,500 with the using of marginal costing principles.

c) Sales : $\text{£}5.75 + \text{£}0.25 = \text{£}6$
 Direct Labour: $\text{£}1.35 + 0.5 = \text{£}1.40$
 Direct Material: $\text{£}1.75 + 0.15 = 1.90$
 The overall volume of business selling units are revised to: $90,000 + 5\% = 94500$
 Sales: $945000 \times \text{£}6 = 567000$
 Direct Labour: $94500 \times \text{£}1.40 = \text{£}132000$
 Direct Material: $94500 \times \text{£}1.90 = \text{£}179550$
 Other direct costs: $94500 \times \text{£}0.40 = \text{£}37800$
 Total Marginal Cost: $\text{£}132000 + \text{£}179550 + \text{£}37800 = \text{£}349650$
 Contribution = $\text{£}567000 - \text{£}349650 = \text{£}217350$
 Net profit of business: $\text{£}217350 - \text{£}192500 (\text{fixed business expenditure } \text{£}180000 + \text{advertisement expenditure } \text{£}12500) = \text{£}24850$.

In accordance with the revised pricing range the overall volume of business profitability has significantly changed with change of the same business productive unit volumes. According to the computation with the application of some significant changes the overall profitability volume of business compared with the previous statements made a significant change which is around $(\text{£}24850 - \text{£}22500) = \text{£}2350$ accordingly.

d) Limitations of break-even analysis

According to the general costing principles, application of break-even point analysis is generally used to recognize the actual volume of business product is unit with the selling of which the managerial authority can significantly reimbursed the overall volume of business expenditure that is involved in production purpose. In other words, is it generally used to present such particular productive unit volumes, through selling of which business neither faces any profit advantages nor incurred any kind of losses also. This particular process has below limitations:

- It is totally based on unrealistic levels, which is totally inefficient, because of a perfectly competitive marketing environment with the announcement of demand pricing range being generally increased gradually. Even the fixed costs also do not depend when output changes (Verma, 2015)
- It is totally based on assumptions that the sales are unlikely to be the same as output volume, which is totally unrealistic because in case of production there must be some build-up of stocks volume or wasted output volume also.
- Variable costs also no not always stay at the same pricing range. For example: when the output volume is increased, the business may benefit from being able to buy inputs at lower pricing structure with the proper application of buying power which is generally used to reduce the overall variable cost per unit volume.
- The particular process can only be recognized as a planning aid and not recognized as any decision-making tool of business.

Question 2- Workings

a) Application of management Accounting System

According to the general concept of accounting, application of managerial accounting system is generally used to evaluate present performance structure of business and also implement some significant strategic plans to complete the overall business objectives with proper planning approaches. In accordance with the present business performance level the overall volume of objectives for Management Accounting system are discussed as per below:

- **Application of information:** According to the general performing structure of this particular accounting system, the proper application of such processing provides the benefit of efficient business information depending on which the managerial authority can positively structure some significant strategic plan for development and purpose. For example, with the application of inventory management systems the managerial authorities can positively recognize the overall volume of business inventory value for initiating some significant inventory-oriented project initiatives (Cooper *et al.* 2017).
- **Effective planning:** With Proper application of this system, the managerial activities can initiate some significant strategic plan which are generally structured in accordance with the primary objective of business performance. For example, application of budgetary controlling tools can provide the significant advantages of business budgeting for recognising the overall volume of business expenditure as our revenues in the preceding time period.
- **Decision making:** Application of this particular business processing system provides the benefits of efficient business decision making capacity for future development. In this situation, with the proper application of such system, the managerial authority can positively evaluate the present performance structure and also can implement some strategic plans and also maintaining some significant decisions related to future probable business opportunities. For instance, application of business budget can provide the significant structure of business probable expenditure volume, with the proper cost controlling initiatives the managerial authorities can significantly reduce the volume of business expenditure (Messner, 2016).
- **Controlling:** with the proper application of an efficient Business Management Accounting system the managerial authorities of business can significantly control the relevant volume of Business expenditures and other factors for efficient business profitability maintenance. For example: with the application of standard costing, the management can efficiently derive the differentiation between standard costing and actual costing of business.

- **Financial accounts need to be follow the accounting laws**

According to the general concept of accounting, for the primary approach of presenting efficient business financial details every account of the business needs to follow some significant accounting provisions and guidelines positively. In the United Kingdom generally, the accounting standards issued by International Financial Reporting Standards or IFRS are significant for efficient presentation of business financial details. For example: with the proper application of IFRS, the managerial authority of the business can positively provide the financial reporting format related to financial assets and liabilities that generally provide the significant information related to the business towards the potential stakeholders for efficient business decisions. Following the same context, application of significant other provisions can also provide relevant guidance related to accounting presentations and maintenance for efficient business auditing purpose also (Dayanandan *et al.* 2016)

b) The managerial accounting needs to follow some significant business accounting techniques which are enumerated in underneath:

- **Break-even point analysis:** Application of this particular accounting technique is used in order to recognise the significant volume of business productive unit's volume, through selling of which the management can significantly reimbursed overall business production expenditures volume positively. In other words, it is used to present that particular position of business revenues under which the overall business expenditure and revenue volume will be equal and the business neither faced any kind of profitability nor incurred any loss also.
- **Standard costing:** Business standard costing is generally used to present a significant level of differentiation between business budget cost and actual expenditure volume that incurred during the continuation of business process.
- **Marginal costing:** the application of marginal costing techniques is used to fix the selling price of business along with the present marketing opportunities for efficient development purposes. Apart from that it is also used to maintain the best sales mix level purpose, proper allocation of business raw materials, efficient business make or buy decision and also provide efficient analysis regarding business fixed, variable and contribution level maintenance (Nan, 2019).
- **Budgetary control:** With the proper application of business budgetary controlling approaches, the managerial activities can positively recognise overall volume of business expenditure, revenues and other processing for the preceding time period. Apart from that application of this counselling approach can also provide the significant advantages related to avoidance of business waste material volumes for efficient business performance. Also, with the proper application of those significant business management accounting techniques can provide the benefits of general business objectives completions along with proper planning, controlling, coordinating and also organizing approaches (Mohamed *et al.* 2016).

Based on the above enumerations, it can be considered that application of break-even point analysis used to provide the efficient business advantages of profitability recognition along with efficient business revenue level maintained follow the same aspects, application of efficient business managerial accounting system provide the benefits of business controlling , coordinating and also planning approach for completing the overall business objectives without any kind of obstructions and maintained business sustainability approaches.

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