



LOCATION: LONDON

LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

**EXAMINATION PERIOD
JUNE 2021 TERM**

**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 11:00am

Question1

Kerrigan Ltd. makes and sells product A. The current selling price is 11 pounds and the total variable costs per unit is 6 pounds. The fixed costs of production are 350K pounds, and the company currently sells 75K units.

a) Break-even point:

Contribution= selling price- variable cost= $11-6=5$ pounds per unit

Break -even point= Fixed costs/contribution per unit= $350\ 000/5=70\ 000$

This is the point above which the business starts to make profit.

b) Profit for 75 000 units:

Profit= Revenue- Variable costs- Fixed costs= $11 \times 75\,000 - 6 \times 75\,000 - 350\,000 = 5 \times 75\,000 - 350\,000 = 25\,000$

Profit=25 000 pounds

c) New profit, considering 10 000 advertising campaign, variable cost increase by 1, selling price 13, Q= 80 000

Profit= Revenue- Variable costs- Fixed costs

New revenue= $13 \times 80\,000 = 1\,040\,000$

New variable cost= $7 \times 80\,000 = 560\,000$

New fixed cost= $350\,000 + 10\,000 = 360\,000$

New Profit= $1\,040\,000 - 560\,000 - 360\,000 = 120\,000$ pounds

d) Limitations of break-even analysis

Break even analysis gives a valuable information about when a business worth pursuing. However, still there are few limitations of the model. First of all, the revenue and variable costs remain linear. In other words, the price and variable costs remain the same for all levels of activity. In many cases that wouldn't be exactly the case. The other limitation is that not all costs can be clearly defined as variable or fixed. There are also costs that are semi-variable or fixed. At certain point fixed costs stop being purely fixed. Third limitation that I would like to discuss is that it is not possible to include multiple products in the model, although a business rarely exists with only one stream of revenue. Lastly, there are also other factors that are not included in the model. For example, innovation and human factor that are overlooked in the model.

Question 2

a) The importance of management accounting and how it differs from financial accounting.

Management accounting provides information to management and possibly also other internal stakeholders to help them with controlling, decision making and planning. Not only financial data is used, but also other operational data can be used to improve the understanding of the business. In today's fast paced and highly competitive environment management accounting is crucial for improving the efficiency of the business.

One of the main differences between management accounting and financial accounting is their goals. Financial accounting is mainly concerned with reporting the current financial positions of a business. On the other hand, in management accounting the interest is in increasing efficiency and predicting better future performance. While in financial accounting there can be also external stakeholders, in management accounting there are only internal stakeholders. In financial accounting there are strict regulations like IFRS and GAAP, in management accounting there is no strict guideline about how to read financial data. In financial accounting there are predefined financial periods, while in management accounting there are no predefined periods. It is also possible that ad hoc analysis is needed.

b) Discuss the techniques by which the management accountant can achieve the objectives of management accounting

Budgeting is used by management accountants for planning, controlling and communication. There are short term budgets, which are for one year or shorter period and long-term planning which can be for longer period, for example even 5 years. The budget represents the expected costs and revenue in the future periods. It can serve also for controlling, because after actuals come comparison can be done to check what went different than expected. In this way there can be better control and visibility. The budget can be also used by management to motivate. Ambitious goals can be promoted to motivate employees achieve their highest potential.

Other techniques used by management accountants to evaluate investment efficiency are payback period, NPV and IRR. They are very useful techniques, because they not only consider the amount of investment and return, but also the time value of money. They are using discounting models to gives us better understanding of what the money we will receive or give in the future cost us today.