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**Module Title:** Accounting Fundamentals (LCBB4001)

**Assignment Title:** Accounting Fundamentals Exam – Assessment 2

**Module:** (LCBB4001)

**Lecturer's Name:** Rixon Nting

#### **QUESTION 1:**

##### **a) Information gathered:**

- Selling Price Per Unit: £ 11
- Total Variable Cost per Unit: £ 6
- Fixed Cost: £ 350,000
- Sell per Unit: 75,000 Unit

→ Revenue: £ 825,000 (Sell per Unit x Selling Price = 75,000 x 11)

→ Total Variable Cost: £ 450,000 (Sell per Unit x Total Variable Cost per Unit= 75,000 x 6)

##### **Breakeven Point Per Unit:**

Contribution Per Unit = Selling Price – Variable Cost Per Unit

Contribution Per Unit = 11 – 6 = 5

Breakeven Point Per Unit = Fixed Cost / Contribution Per Unit

Breakeven Point Per Unit = 350,000 / 5 = **70,000 Unit**

##### **Breakeven Point Per Revenue:**

CM Ratio = Contribution Per Unit / Selling Price Per Unit

CM Ratio = 5 / 11 = 0,45

Breakeven Point Per Revenue = Fixed Cost / CM Ratio

Breakeven Point Per Revenue =  $350,000 / 0,45 = 777,777.77 \text{ £}$

**b)** Calculate the profit made on sales of 75,000 unit.

|                          | £         | £             |
|--------------------------|-----------|---------------|
| Revenue                  | 825,000   |               |
| Variable Cost            | (450,000) |               |
| <b>Contribution Cost</b> |           | 375,000       |
| Fixed Cost               | (350,000) |               |
| <b>Operating P/L</b>     |           | <b>25,000</b> |

An alternative approach is:

Profit/Loss = ( Sell Per Unit – Breakeven Point Per Unit) x Contribution Unit

Profit/Loss =  $(75,000 - 70,000) \times 5 = 25,000 \times 5 = \text{£ } 25,000$

**c) Calculate the new profit figure for the improved product.**

**New information gathered:**

- Selling Price Per Unit: £ 13
- Variable Cost Per Unit: £ 7 (6 + 1)
- Sell Per Unit: 80,000 Unit
- Fixed Cost: £ 360,000 (350,000 + 10,000 of Adv. Campaign)

→ Revenue: £ 1 040,000 (Sell per Unit x Selling Price = 80,000 x 13)

→ Total Variable Cost: £ 560,000 (Sell per Unit x Total Variable Cost per Unit= 80,000 x 7)

|                          | £         | £       |
|--------------------------|-----------|---------|
| Revenue                  | 1 040,000 |         |
| Variable Cost            | (560,000) |         |
| <b>Contribution Cost</b> |           | 480,000 |
| Fixed Cost               | (360,000) |         |

|                      |  |                |
|----------------------|--|----------------|
| <b>Operating P/L</b> |  | <b>120,000</b> |
|----------------------|--|----------------|

An alternative approach is:

Contribution Per Unit = Selling Price – Variable Cost Per Unit

Contribution Per Unit = 13 – 7 = 6

Breakeven Point Per Unit = Fixed Cost / Contribution Per Unit

Breakeven Point Per Unit = 360,000 / 6 = 60,000 Unit

➔ Profit/Loss = (Sell Per Unit – Breakeven Point Per Unit) x Contribution Unit

➔ Profit/Loss = (80,000 – 60,000) x 6 = 20,000 x 6 = **£ 120,000**

**d) Discuss the limitation of break-even analysis**

- The break-even analysis is based on assumption. The calculation is created on the forecast rather than actual data. E.g. “Sell per Unit” is a prevision of the number of unit the Company expect to sell. Company is not capable of knowing the real number of unit it will sell in the future. The consequence of using predicted data is an analysis with uncertain and forecast result.
- The break-even analysis ignores several factors that would modify the predicted data. E.g., Waste, recall, items defected, refund are not taken into consideration. Variable Cost can change for several reasons as if suppliers increase or decrease the price. E.g. Particularly in this period, the pandemic significant affected the prices. Companies were not able to predict the new data, and many break-even analysis have considerable differences in what was assumed.
- Fixed Cost also is not always constant, may vary when the output considerable changes.
- Break-even analysis only applies to a single product. Most of the Companies have a product portfolio with a range of products, and the Break-even analysis would be complicated to use.

## QUESTION 2:

**a) Discuss the importance of management accounting, and how it differs from what financial accounting provides.**

Management Accounting is fundamental for Companies, as is a useful tool for the manager to make the decisions that would affect the Business. It assists Managers on planning, on decision's making, on controlling, on directing and motivating, and on performing an evaluation.

Management Accounting enables managers and entrepreneurs to maximize profit and minimize loss.

For this reason, Management Accounting is for internal audit as managers. At the same time, it differs from Financial Accounting that refers to an external audit (as existing or potential investors, government, etc.). As is for internal audit, Management Accounting is not heavily regulated by the government as Financial Management does. Financial Management is essential and mandatory, need to fulfil the Accounting Principles and Standards, and the information required to be objective and precise. A false Financial Management report is punishable by law. The scope of Financial Accounting is broad, is to let the external parties understand the big picture of the business; meanwhile, the Management Accounting's scope is narrower relevant and timely are pivotal. While Financial Management is accurate and based on historical information (no guesstimate is allowed), Management Accounting is not mandatory by law and is based on assumption with a looking-forward approach. It is focusing on the future.

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

- **Capital Budgeting and Investment Analysis** help Managers to decide where allocates their resources. Calculating the Payback Period or the Net Present Value (NPV), it helps to know the amount of time required to recover the cost of the investment. Although the Payback period is a simple tool to have a brief glimpse of the project is worth it, the NPV is more accurate as it considers the currency. Accounting Rate of Return (ARR) and Internal Rate of Return (IRR) and measures potential investment profitability. As Payback Period and NPV; ARR and IRR are distinguished for the reason that ARR does not consider the time value of the project, is the most straightforward but less accurate tools.

- **Marginal Analysis and Break-even Analysis** are decision-making technique.  
Calculating the Margin of Safety is possible to measures the amount by which sales can drop before having a loss. Establishing the Target Profit, Companies know the profit required to cover the expenses, before reaching the Break-even point (a profit lower than the Break-even point will generate a loss).
- **Budgeting** is a plan and control technique. Calculating how much stock they will need (with the Production Plan), how many hours employees are required to work (calculating the Labour with the Cost of Production), the material required to produce (Cost of Production), the units of product are expected to sell (Sales Budget) etc., Managers can plan how to spend and dislocate the money efficiently. Particularly, using the Zero Based Budget, the operation of the organization are examined in depth and Managers can identifies and avoid inefficient operations or wasteful expenditures.