



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 9am to 4pm

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]**

Break-even point (BEP) = fixed cost / (selling price per unit – variable cost per unit)

$$BEP = £350,000 / (£11 - £6) = 70,000 \text{ units.}$$

$$\Rightarrow 70,000 \text{ units} * £11 = £770,000 \text{ in revenues}$$

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

$$\text{Contribution per unit} = £11 - £6 = £5$$

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

$$\text{Revenue } (75,000 * 11) = 825,000$$

$$(-) \text{ V.C } (75,000 * 6) \quad (450,000)$$

$$\text{Contribution} \quad 375,000$$

$$(-) \text{ F.C} \quad (350,000)$$

$$\text{Profit} \quad 25,000$$

- (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]**

$$\text{Selling price} = £13$$

$$\text{Variable cost} = £6 + £1 = £7$$

$$\text{Profit} = (£13 - £7) * 80,000 - £350,000 - £10,000 = £120,000$$

(d) Discuss the limitations of break-even analysis.

[15 marks]

Various limitations that are related to the usage of break-even analysis are listed below:

- Break-even analysis is based on the assumption and for this; all costs and expenses are separated into fixed as well as variable components (Yourarticlelibrary, 2021). In the real context, achievement of the clear-cut division of costs based on fixed variable types is not possible.
- Variable costs that are used within the break-even analysis process vary proportionately comparing the volume of the output. Within the practical field, the costs are moved with the volume of output but direct proportions are not necessary within the analysis process.
- The assumption that is presented through the break-even analysis regarding the selling prices remains unchanged and that presents a straight revenue line that might not be true (Yourarticlelibrary, 2021). In that case, it is noticed that the selling price of the products is dependent on certain factors such as demands in the market, supply, and competition.

QUESTION 2

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

[25 marks]

Management accounting is the process through which managers of various business organizations identifies, interprets, measure, and analyses various aspects of their financial prospect which makes the business organization way more effective as it contributes to various organizational decision making, helps the business organization to manage their respective daily operations, and also, helps to make various financial choices as well (toppr, 2021).

Plan Making- It plays a major role in the business organizations and helps the business organization to make effective plans as it helps the business organizations by supplying various financial information to the business organization both in terms of financial and non-financial (CommerceMates, 2021).

Effective decision making- Management accounting provides a clear perspective of financial prospects to the managers and the higher authorities of a business organization which helps them to take various decisions which are beneficial for the business organizations (CommerceMates, 2021).

Effective service to the customer- Management accounting also helps to provide effective service to the customers of a business organization as it helps to set up the prices of the products and services of the business organization and also allows the customers to purchase the products at a much fair price. The prices of the products are done through aspects of various cost-controlling devices (CommerceMates, 2021).

Financial accounting is another prospect which deals with various aspects of financial aspects of a business organization. Although there are some

aspects of difference between management accounting and financial accounting such as financial accounting information are disclosed to the stakeholders of a business organization whereas, on other hand management accounting is more confidential and are limited to the management only (Borad, 2021). Also, financial accounting focuses more on the history of the financial issues while management accounting focuses more on the present.

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

The three specific ways through which a management accountant may determine the various management objectives of accounting are as follows:

Financial planning- It is one of the effective ways to determine the accounting objectives it highlights the required steps to be taken to achieve financial efficiency within a business organization. It also helps to identify the various short-term and long-term financial objectives of a business organization which adds a lot to their growth and success from a long-term perspective (Accounting Notes, 2021).

Historical Cost Accounting- Such aspect gives a clear picture to the management of the business organization about the various cost involved in various business operations and helps the management to compare those data with the standard cost of the business. Such prospects help the management to be cost-effective and to make effective planning as well (Accounting Notes, 2021).

Budgetary Control- The respective management of a business organization uses such a tool to control and plan various business activities and operations. Through this prospect, the business organization also gets a satisfactory investment return. It's one of the most effective tools to become cost-effective and to make plans for the future (Accounting Notes, 2021).

Marginal costing- The accountant of the management uses such aspects to make effective business decisions and to increase their rate of profits (Accounting Notes, 2021).

END

References

Accounting Notes.2021. Learn Accounting: Notes, Procedures, Problems, and Solutions. 2021. *Top 11 Techniques used in Management Accounting*. [online] Available at: <<https://www.accountingnotes.net/management-accounting/techniques/top-11-techniques-used-in-management-accounting/5862>> [Accessed 27 August 2021].

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Yourarticlelibrary.com. (2021). *Break-Even Point: Meaning, Assumptions, Uses, and Limitations*. Your Article Library. Retrieved 16 August 2021, from <https://www.yourarticlelibrary.com/accounting/break-even-point/break-even-point-meaning-assumptions-uses-and-limitations/65309>.