

ACCOUNTING FUNDAMENTALS

ASSESSMENT 2

NAME: MIHAELA MUSAT

STUDENT NUMBER: 1915928

MODULE LECTURER'S NAME: EMAD ELKHASHEN

"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 in 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

a) S.P= 5.75

$$F.C = 180000$$

$$UNITS = 90000$$

$$CM = 1.35 + 1.75 + 0.40 = 3.50$$

$$5.75 - 3.50 = 2.25$$

$$BEP = FC/CM$$

$$BEP = 180000 / 2.25 = 80000 \text{ (units)}$$

$$BEP = 80000 * 5.75 = 460000 \text{ (revenues)}$$

b) PROFIT= CM-FC

$$\text{Revenue } 90000 * 5.75 = 517000$$

$$(-) \text{ VC } 90000 * 3.50 = (315000)$$

$$CM = 202000$$

$$PROFIT = 202000 - 180000 = 22000$$

c) Advertising costs= 12500

$$\text{New FC} = 180000 + 12500 = 192500$$

$$\text{New SP} = 5.75 + 0.25 = 6$$

$$\text{Sales} = 90000 * 5 / 100$$

$$\text{New sales} = 94500$$

$$VC = 1.35 + 0.05 + 1.75 + 0.15 + 0.40 = 3.70$$

$$\text{New VC} = 6 - 3.70 = 2.30$$

$$\text{New BEP} = 192500 / 2.30 = 83695 \text{ (units)}$$

$$PROFIT = 94500 - 83695 = 10805 * 2.30 = 24851.50$$

d) Break-even analysis looks to be a very valuable and useful benefit to take decisions.

Certainly, break-even charts are relatively easy to construct and provide managers with information on break-even forecasts, margins of safety and profit and loss at different output levels. Manipulation of break-even charts can be used to answer; 'what if?' questions and can be part of a strategic analysis, including the setting of prices and establishing the resource levels required to hit target profits.

Unrealistic assumptions – products are not sold at the same price at different levels of output; fixed costs do vary when output changes.

Sales are unlikely to be the same as output – there may be some build up of stocks or wasted output too.

Variable costs do not always stay the same. For example, as output rises, the business may benefit from being able to buy inputs at lower prices (buying power), which would reduce variable cost per unit.

Most businesses sell more than one product, so break-even for the business becomes harder to calculate.

However, there are a number of limitations of break-even analysis:

- In the break-even analysis, we keep everything constant. The selling price is assumed to be constant and the cost function is linear. In practice, it will not be so.
- In the break-even analysis since we keep the function constant, we project the future with the help of past functions. This is not correct.

- The assumption that the cost-revenue-output relationship is linear is true only over a small range of output. It is not an effective tool for long-range use.
- Profits are a function of not only output, but also of other factors like technological change, improvement in the art of management, etc., which have been overlooked in this analysis.
- When break-even analysis is based on accounting data, as it usually happens, it may suffer from various limitations of such data as neglect of imputed costs, arbitrary depreciation estimates and inappropriate allocation of overheads. It can be sound and useful only if the firm in question maintains a good accounting system.
- Selling costs are specially difficult to handle break-even analysis. This is because changes in selling costs are a cause and not a result of changes in output and sales.
- The simple form of a break-even chart makes no provisions for taxes, particularly corporate income tax.
- It usually assumes that the price of the output is given . In other words, it assumes a horizontal demand curve that is realistic under the conditions of perfect competition.
- Matching cost with output imposes another limitation on break-even analysis. Cost in a particular period need not be the result of the output in that period.

- Because of so many restrictive assumptions underlying the technique, computation of a breakeven point is considered an approximation rather than a reality.

QUESTION 2

a) Management accounting is the process of preparing reports about business operations that help managers make short-term and long-term decisions. It helps a business achieve its goals by identifying, measuring, analyzing, interpreting and communicating information to managers.

The data collected encompasses all fields of accounting that informs the management of business operations relating to the costs of products or services purchased by the company.

Management accountants use budgets to quantify the business plan of operations.

Performance reports are used to note the deviation of actual results compared what was budgeted.

Internal management accounting systems are used to provide critical information to management to be used in operational business decision-making. A manufacturing company might use these systems to help in the costing and managing of their process. A hospital might use management accounting systems to assist them in insurance billing and other in-house requirements.

These systems vary within the industries they are used within and allow for functionalities and reports specific to that industry.

The main functions of management accounting include:

1. HELPING FORECAST THE FUTURE

Forecasting helps decision to made and answers questions like: Should a company invest more in equipment? Should it diversify into different markets and regions? Should it buy another company?

Management accounting helps answer important questions that can forecast future trends in business.

2. HELPING IN MAKE-OR-BUY DECISIONS

Management accounting insights on cost and production availability are deciding factors in purchasing choices. Data from managerial accounting empower decision-making at both an operational and strategic level.

3. FORECASTING CASH FLOWS

Estimating cash flows and the impact of cash flows on the business is essential. Considering where the costs companies will incur in the future and where its revenue will come from can help a business make its next moves. Management accounting involves creating budgets and trend chars that manager use to decide how to allocate money and resources to generate the projected revenue growth.

4. HELPING UNDERSTAND PERFORMANCE VARIANCES

Performance discrepancies in business are variances between what was predicted and what was achieved. Using analytical techniques, management accounting help management build on positive variances and manager the negative ones.

5. ANALYZING THE RATE OF RETURN

Knowing the rate of return (ROR) is essential to know before embarking on a project that requires a lot of investments. Vital questions that can be answered through management accounting include. If presented with two investment opportunities, how does a business choose the most profitable one? In how many years will a company break even on a project? What are the cash flows estimated to be?