

LOCATION: LONDON

LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

EXAMINATION PERIOD

CYFNOD ARHOLIADAU

JUNE 2021 TERM

MEHEFIN 2021 TYMOR

MODULE CODE: LCBB4001

COD Y MODWL: LCBB4001

ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

Name : Loredana Aurora Padure

Student ID : 2019942

Date & Time : 10.00

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]**
- (b) Calculate the profit made on sales of 75,000 units. **[10 marks]**
- (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]**
- (d) Discuss the limitations of break-even analysis. **[15 marks]**

QUESTION 2

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

[25 marks]

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

[25 marks]

Question 1

a] $350000(11-6)=$

$$350000:5=$$

$$= 70000 \text{ units}$$

b) $70000-75000= -5000$

c) $80000x(13+1)=$

$$=80000x14= 1120000$$

d) Break-even analysis is a useful and popular technique for a wide range of organizations, including start-ups.

The Benefits of Equilibrium Analysis
Entrepreneurs focus on the time it takes for a startup to be profitable. It helps entrepreneurs understand the viability of a business idea, as well as who will fund or invest in the company. Equilibrium analysis has limitations. Variable costs are not necessarily constant. For example, when production increases, a company can make a profit by being able to acquire resources at reduced prices (purchasing power), which reduces variable costs per unit of output. Since most companies offer more than one product, calculating a company's break-even point becomes more difficult.

Question 2

a)

Management accounting provides a comprehensive view of the financial and resource flow aspects of your business so you can make quick, fact-based decisions. It differentiates between the important and the unimportant, finds mistakes and gives you the tools to develop long-term growth strategies

Management Accounting is necessary:

Management Accounting is necessary to recognize the financial position of a company and to communicate the planning, management and motivation, Regulation and performance evaluation are responsible. Risk managers, budgeters, planners, strategists, and decision makers are roles that management accountants play. Financial accounting is used to inform external stakeholders about a company's financial health. This enables the board of directors, shareholders, potential investors, creditors and financial institutions to review how they have performed in the past over a period of time. These reports are presented every year. If a corporation is listed on the stock exchange, the reports must be published. In a course on financial accounting, students learn to create, interpret and analyze financial accounts.

The financial and managerial accounting discrepancies are two main factors. The first distinction is that the internal community of a business is provided with management accounts, while the external audience is preparing financial accounts.

While financial accounting for current and future investors is important, it is important for managers to have a management account to

make current and future business decisions. Second, financial accounting is accurate and must be handled in accordance with generally accepted accounting principles, while management accounting can be based on estimates or estimates because many managers have little time to obtain accurate data.

b)

The marginal analysis mainly focuses on the incremental advantages of production optimization. Marginal analysis is one of the most important and most important management accounting approaches. The breakthrough point should be calculated.

One of the greatest and most profitable alternatives can address a company challenge. The corresponding expenses are compared to pick such an option. Therefore, the business problem emerging out of the increasing complexity of the business nature of company is solved through accounting information.

For the efficient running of company, the open flow of communication inside the organization is vital. The management may thus develop a system via which each employee of a business can evaluates the information and make excellent judgments.

Based on the profit and loss account and the balance sheet, the accountant prepares the report and submits it to the highest level. This reveals the strength and weakness of the preparations of reports indifferent to the operational and financial operations. This identification is very important in management for monitoring and decision-making exercises.

Management Accounting: Vision and mission and goals - a general aim and a series of goals related to this core purpose are set by the senior management accounting and management accounting team. This is the basis for the management accounting group's activities and gives them answers to a number of queries.

The collection and analysis of information – strategic management accounts collect data from many sources inside the internal company environment and the external market.

Management accounting and response to technological change, globalization, increased risk management concerns is going through a redesign. In these difficult times, executive officers help 'maintain sleep' because their organizations act as wise advisers, and ethical advocates of numbers. Management accountants are qualified to help their employees achieve good business results because they have obtained an advanced license that covers all the important aspects of accounting within organizations. A variable cost method is very important to make an internal decision of a company. Another costing method is shipping costs; this cost method is known as total cost method. This costing method is used for external purpose. It makes sense that producing more units until the units are not sold will have no impact on profits.

References

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Annual report of Square Pharmaceuticals Limited, 2007-2008.

Roychowdhury, S. (2006). Management of earnings through the manipulation of real activities that affect cash flow from operations. Working Paper. MIT Sloan School of Management.

Kinney, M. and W. Wempe (2005). JIT Adoption: The effects of LIFO reserves and financial reporting and tax incentives. Contemporary Accounting Research 21(3), 603-638.

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