



LOCATION: LONDON LEVEL 4

LLEOLIAD: LLUNDAIN

EXAMINATION PERIOD JUNE 2021 TERM

LEFEL 4

**CYFNOD ARHOLIADAU
MEHEFIN 2021 TYMOR**

**MODULE CODE: LCBB4001
COD Y MODWL: LCBB4001
ACCOUNTING FUNDAMENTALS**

TIME: 9:00AM TO 4:00PM

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2030517
Student ID : 27/08/2021 12:40
Date & Time :

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]**

END

Question 1

a) Price £ 11

Total variable cost £ 6

Fixed cost 350000

Contributions margin unit

Selling price unit- £11

Variable cost £6=
5

350000:

5=

70000(units)

70000*£11=770000(revenue)

b) Revenue (75000*£11) 825000

(-) VC (75000*£6) 450000

(-) FC £ 350000

Contributions 825000-

450000=

375000

: _____

375000-

350000=

: _____

25000

c) FC= 350000+10000=360000

VC = £6+ £1= £7

7* 80000=560000

Revenue £13* 80000= 1040000

Contributions 1040000-

560000=

480000

New profit 480000-

360000=

120000

d) Just as there are limitations with ratio analysis, there are also limitations to breakeven analysis. Breakeven analysis assumes that you sell all stock. It can be difficult to classify fixed versus variable costs.

If you have multiple products, then it can be more difficult to determine and apply the fixed costs amongst the multiple products. Some products may be bought in bulk, allowing for a discount where others may incur a premium. Importing also can create difficulties due to fluctuating exchange rates.

The greater your product range the more complex your accounting system will be as you need to keep track of the individual costs for each product. You also need to continually note any assumptions used to calculate costs, just as you do with pricing.

If you manufacture your product, increased customer demand for your product may incur additional costs e.g., overtime that has not been factored into your costs.

You should really look at breakeven analysis as a planning tool rather than a decision-making tool.

Question 2

a) Management accounting, also referred to as managerial accounting, is used by managers and directors to make decisions regarding the daily operations of a company. A distinguishing feature of managerial accounting is that it is not based on past performance, but on current and future trends. For example, determining how much your business should charge for a new product and analyzing how much revenue a future product line is capable of generating are both examples of business problems within the field of managerial accounting. So, too, is deciding when to replace the computers in your offices. Since business leaders constantly need to make operational decisions in a short amount of time, management accounting must rely on predicting markets and future trends. Financial accounting is used to present the financial health of a company to external stakeholders. This allows the board of directors, stockholders, potential investors, creditors and financial institutions to see how the company has performed during a specific period of time in the past. These reports are filed on an annual basis. If a business is considered a publicly-traded company on the stock market, the reports must be made part of the public record. In a financial accounting course, students learn how to prepare, read and analyze financial statements.

Accounting is a changing phenomenon, where both management accounting (MA) and financial accounting (FA) activities, technologies and concepts are continuously evolving and redefining themselves, and are becoming increasingly intertwined, converging realities.¹

In their analytical study, Hemmer and Labro (2008) suggested that the development of FA towards a forward-looking perspective will lead to forward-looking MA. They expressed concerns over the divided nature of accounting as a field of research, in which MA and FA are perceived as separate realities. In their paper, they showed with a theoretical model that MA and FA are not independent, and argued that the properties of financial reporting influence the quality of MA. To substantiate this, they modeled convergence in the technical and technological domain, without raising the question of how this convergence is manifested in practice, or whether this convergence has any relation to the behavioral and organizational domain (see Orlikowski, 1991, Orlikowski, 1992). Recently, Weißenberger and Angelkort (2011) provided the first evidence for how the convergence of MA and FA has behavioral and organizational effects. According to their findings, this convergence has led to increasing consistency in financial language, resulting in greater effectiveness of control from the perspective of management between controllers and financial accountants.

There are two primary differences between financial and management accounting. The first difference is that management accounting is presented to a company's internal community, while financial accounting is prepared for an external audience. Even though financial accounting is of great importance to current and potential investors, management accounting is necessary for managers to make current and future financial decisions for their business. The second difference is that financial accounting is exact and must adhere to Generally Accepted Accounting Principles (GAAP), while management accounting can be based off a guess or estimate since most managers do not have time to get exact numbers by the time a decision needs to be made.

END

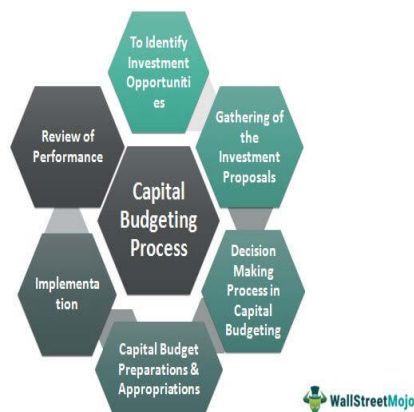
b) Management accounting techniques give business leaders the tools to measure and increase profit margins while lowering operating expenses. Advanced management accounting techniques were developed to provide information appropriate for decision making in changing internal and external environments. The certifications offered by the Institute of Management Accountants are highly valued by the Accounting industry representatives. The international accounting profession is actively seeking opportunities to position itself within the potentially lucrative environmental audit market. To date, accountants have utilised a number of strategies to advocate for a greater role in this field. These strategies have primarily focused on attempts to establish the ability of accountants to 'orchestrate' environmental audits (Power 1996). Therefore, the application of Management accounting techniques offer the leaders the possibility to steer the organisation in the right direction and increase profitability. Break-even analysis is a method that is used by most of organizations to determine, a relationship between costs, revenue, and their profits at different levels of output'. It helps in determining the point of production at which revenue equals the costs. Break-even analysis is also called as profit contribution analysis. Budgeting is a process whereby future income and expenditure are decided in order to streamline the expenditure process. Budgeting is done in order to keep track of the expenditures and income. It serves as a monitoring and controlling method in order to manage the finances of a business. It begins by deciding upon the financial goals according to which the budget will be made. Other important activities in the budgeting process include things such as forecasting, monitoring, controlling and evaluating the financial goals. Inventory changes constantly. Throughout each day, sales, returns, new receipts – even damage and theft – affect your inventory levels. While daunting, effective inventory management and inventory control are the most important jobs in a successful retail or wholesale business. One of the managers' tools is margin analysis allowing to identify the optimal proportions between variable and fixed costs, minimize business risks increasing with reduction of sales. In the article on the basis of the actual data of the enterprise, the analysis is performed and management decisions concerning the product range at incomplete loading of production capacities are proved. Making informed management decisions is an important factor in improving the efficiency of the baking industry with a multi-product production.

Break Even Units Formula

$$\text{Break Even Units} = \frac{\text{Fixed Costs}}{\text{SP} - \text{VC}}$$

SP = Selling price per unit
VC = Variable cost per unit

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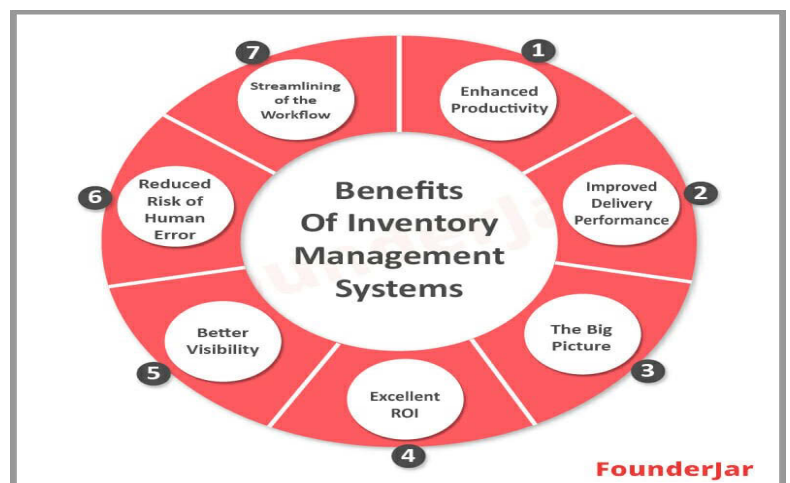


Operating Budget

Revenue/Profits	Costs	Other Expenses
• Which business will earn over asset period of span.	• Variable Cost • Fixed Cost	• Depreciation • Interest

Components

WallStreetMojo



References

<https://smallbusiness.chron.com>

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