



University of Wales

Trinity Saint David

MODULE CODE: LCBB4001

ACCOUNTING FUNDAMENTALS HAND OUT DATE: 09:00 (UK Time), 8th January 2021

SUBMISSION DEADLINE: 16:00 (UK Time), 8th January 2021

SUBMISSION DETAILS:

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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)

Selling price per unit – Variable costs per unit = Contribution per unit

$$£11 - £6 = £5$$

Fixed Costs/ Contribution per unit = Break-even point in units

$$£350,000/£5 = 70,000 \text{ units}$$

Fixed Costs/ Contribution*Selling Price = Break -even point in revenue

$$£350,000/£5*£11 = £770,000$$

Question 1 (b)

(Currently sells – Break-even point) *Contribution per unit = Profit

$$(75,000 - 70,000) *5 = 25,000$$

Question 1 (c)

New Fixed Costs = £350,000 + 10,000 = 360,000

New Contribution £13 - £7 = £6

New Break-even point = £360,000/£6 = 60,000 units

New Profit (80,000 – 60,000) *6 = 120,000

Question 2 (a)

Management accounting is a branch of accounting that is concerned with the identification, measurement, analysis, and interpretation of accounting information so that it can be used to help managers make informed operational decisions.

Financial accounting is mainly concentrated on the coordination and reporting of the company's financial transactions to outsiders (e.g. investors, lenders), management accounting is focused on internal reporting to aid decision-making.

Management accounting need to analyze various events and operational metrics in order to translate data into useful information that can be leveraged by the company's management in their decision-making process. They aim to provide detailed information regarding the company's operations by analyzing each individual line of products, operating activity, facility, etc.

Management accounting differ from Financial accounting:

- Private
- Not regulated
- Specific Focus
- Detailed

- Frequency
- Forward looking
- Financial and non-financial information

Question 2 (b)

In order to achieve its goals, management accounting rely on a variety of different techniques:

- Break Even Analysis

Break Even Analysis in economics, business, and cost accounting refers to the point in which total cost and total revenue are equal. A break-even point analysis is used to determine the number of units or pounds of revenue needed to cover total costs (fixed and variable costs). Break-even point is a term in accounting that refers to the situation where a company's revenues and expenses were equal within a specific accounting period. It means that there were no net profits or no net losses for the company. Break-even point may also refer to the revenues that are needed to be reached in order to compensate for the expenses incurred during a specific period.

- Budgeting

Budgeting is an estimation of costs and revenue over a specified future period and it is usually compiled and re-evaluated on a periodic basis. A budget is basically a financial plan for a certain period of time, normally a year that is known to greatly enhance the success of any financial undertaking. Aside from earmarking resources, a budget can also aid in setting goals, measuring outcomes, and planning for contingencies. It is utilized by governments, businesses, and individuals.

Purpose of Budgeting:

- Planning
- Evaluation
- Motivation
- Communication
- Controlling
- Co-ordination
- Authorization of expenditure

Types of Budget:

- Periodic

The Budget is prepared for a set length of time (one year) and becomes a one-off exercise planned into the business cycle. A budgeting can be revised.

- Continual or rolling

A Budget is Continually updated and may be broken down into monthly periods

- Drop a month, pick up a month

Methods of Budgeting

- Zero based budgeting – each element of the budget is reduced to zero
- Incremental budgeting – take the last performance and change by certain percentage.

Stages in preparing a budget:

1. Define long term objectives
2. Form budget committee
3. Produce a budget manual
4. Identify limiting factor
5. Prepare an initial set of budgets
6. Review, check and revise budgets
7. Prepare master budget
8. Communicate to management
9. Regular review

Capital Investment Appraisal

Capital Budgeting or invest appraisal is concerned with organizational management decisions about which projects or assets to invest in and how to finance them to achieve corporate goals. Analysis is based on conventional financial appraisal models including average return on capital, payback period and discounted cash flow. Financial Appraisal Profile model (FAP) methods includes:

- Payback period (discounted or non-discounted)
- Accounting rate of return (ARR)
- Internal rate of return (IRR)
- Net Present Value (NVP)

Main factors which need to take into account when evaluating projects are the amount of capital available, the cost of the capital, the cash flow from the projects or projects and its timing, capital allowance and taxation, grants, residual value of assets, and risk. Any appraisal should address two fundamentals issues: the long term TSR (total shareholder return) and project liquidity.

Reference:

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Harris E.P., El-Massri M. (2011) *Capital Investment Appraisal*. In: Abdel-Kader M.G. (eds) *Review of Management Accounting Research*

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