



LOCATION: LONDON LLEOLIAD: LLUNDAIN

LEVEL 4

EXAMINATION PERIOD CYFNOD ARHOLIADAU

JUNE 2021 TERM MEHEFIN 2021 TYMOR

MODULE CODE: LCBB4001

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ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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Date & Time : 27/08/2021 12.00am

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.

For Units

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

Kerrigan Ltd Contribution per unit = $11 - 6 = 5$

Break even point is where: Sales revenue = Total costs and Contribution = Fixed costs

Break even point = $\text{Fixed costs} / \text{Contribution per unit}$

Kerrigan Ltd Break even point is = $350,000 / 5 = 70,000$

For Revenue:

Kerrigan Ltd Break even point is = 770,000

$\text{BEP} = \text{Fix cost} / \text{gross profit margin} = 350,000 / (75,000 * 11) - (75,000 * 6) = 350,000 / 825,000 - 450,000$
 $= 350,000 / 25000 = 14$

BEP is 14

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

Profit made = revenue – total cost = $825,000 - (\text{fixed cost } 350,000 + \text{variable cost } 450,000) = 825,000 - 800,000 = \text{profit made } 25,000$

(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]

Campaign cost - £10,000

Variable cost – 6+1 = new variable cost is 7

Selling price is 13

Sales – 80,000 units

New fixed cost 350,000+10,000 = 360,000

Profit made = revenue – total cost = 1,040,000 - (variable cost 560,000 + fixed cost 360,000) = 1,040,000 – 920,000 = **new expected profit is 120,000**

New break event point unit is 60,000

New break event point revenue is 780,000

(d) Discuss the limitations of break-even analysis. [15 marks]

The break-even analysis can be useful accounting tool, but there is also some not taken in consideration facts and impacts which limit the effectiveness of the method.

1. There is no prediction or consideration for the level of competitors or their prices and the possible risks and impact.
2. There is no information about the violation of the suppliers prices and even for how long is the suppliers contract and is the price fixed and for what period of time.
3. There is missing point and fixed specific promotions in the future period which could impact the set prices and margin.
4. In case there is need to be increasing the selling price this definitely can lead to decreasing of the sales which will create difference within the planned revenue and from there the planned profit will be less.
5. In the calculations there is assumption that all the planned stock is sold out which not always get done at real.
6. The calculations can be completed for single product and for over one product is difficult to be predicted or planned.
7. The market and environment changes also missing from the break-even analysis, which is high risk especially now with all lockdowns, restrictions and the COVID19 challenges.

QUESTION 2

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

The management accounting has critical importance for every company, because no high profits can be achieved without implementing the accounting objectives. The accounting main objectives are planning, control and decisions making. Without proper and strict strategy for achieving this accounting objective no company can progress and achieve maximum profit in long term. Financial accounting is mostly focused over the data and information mostly over the incomes, expenses and investments, but only in the form of data. The management accounting is mostly focus over the aim how to use the accounting reports and data for changing the operational tasks and activities with decreasing the cost and expenses and increasing maximum the net profit for the organization.

In other words the financial accounting is focused over the data input, analyses, budgets and planning versus the management accounting where the same information in the form of specific reports is used for actions and SMART decisions for delivering more profit.

Both the management and financial accounting are important for the company and they need to work in collaboration each other in order to be delivered maximum net profit and sustainability for the company.

The financial accounting operates only with financial information versus the management accounting where is taken in consideration financial and non-financial information.

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

The main three techniques are planning, control and decisions making as they are base for the management accounting and achieving results.

Planning is the first important step for the future achievements without planning there will be no enough results for covering the expenses and from there not enough net profit.

Control is the other main point of the management accounting as control in short periods of time can give the clear picture is the operations going in the right direction for delivering maximum profit.

Lastly, but very important is the decision making which making the difference by implementing decisions based on up to date, data, facts, factors and information but financial and non-financial.

The management accountant needs to use all available reports and analysis with the final target to improve the results for the company and to decrease the cost. There are many tools, techniques and reports which need to be used. The management accountants using incomes report, expenses report,

final statement report, budgets report, cost analysis reports and many others. These reports provide clear and specific data for the results and the actual situation of the company.

Based on the reports the manager need to advice and take decisions for better control, better planning or more productive decisions making for the company sustainability.

The management accountant needs to prepare and evaluate properly the projects, before the actual investment and there is need of specific calculations to be made, before the final decision for investing in the project. There needs to be used methods of evaluating projects with payback calculations, accounting rate of return, net present value and internal rate of return.

Reference list

Buşan, G. and Dina, I.C., 2009. Using cost-volume-profit analysis in decision making. OF THE UNIVERSITY OF PETROŞANI~ ECONOMICS~, 9(3), pp.103-106.

Maheshwari, S.N., Maheshwari, S.K. and Maheshwari, M.S.K., 2021. Principles of Management Accounting. Sultan Chand & Sons.

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