



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

MODULE CODE: LCBB4001

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ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

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Answer to the question No- 1(a)

Break even analysis is used to calculate the margin of safety of an organisation based on related costs associated with and the collected revenue from the business operation. In BEP the business neither makes profit nor experiences any losses. BEP for the Kerrigan Ltd has been calculated in the following tables.

Kerrigan Ltd Product A				
Selling Price	£	11.00	TVC	£ 450,000.00
Total Sales	£	825,000.00	Total Fixed Cost	£ 350,000.00
			Total Cost	£ 800,000.00

BEP(Revenue)=

$$\frac{\text{Fixed Cost}}{(\text{Sales price per Unit} - \text{Variable cost per Unit}) \div \text{Sales price per Unit}}$$

$$\begin{aligned}\text{BEP(Revenue)} &= \frac{350000}{(11 - 6) \div 11} \\ &= \text{£}770000\end{aligned}$$

$$\begin{aligned}\text{BEP(Units)} &= \frac{77000}{11} \\ &= 70000 \text{ units}\end{aligned}$$

Answer to the question no-1(b)

Total cost= [(Variable cost × Number of Units) + Fixed cost]

$$= [£6 \times 75000] + £350000$$

$$= £800000$$

Total sales= Number of Units × Sales Price

$$= 75000 \times £11$$

$$= £825000$$

Profit= (Total sales – Total cost)

$$= (£825000 - £800000)$$

$$= £25000$$

Kerrigan Ltd Product A				
Selling Price	£ 11.00	TVC	£ 6.00	£ 450,000.00
Total Sales	£ 825,000.00	Total Fixed Cost	£ 350,000.00	£ 350,000.00
		Total Cost		£ 800,000.00
Profit				£ 25,000.00

Answer to the Question No-1(c)

New Variable cost= £6+£1= £7

New Sales Price= £13

New Units= 80000

New Fixed Cost= £350000+£10000= £360000

So, Total Sales= (80000 × £13) = £1040000

Total Cost= (80000 × £7) + £360000 = £920000

New Profit= £1040000-£920000= £120000

New Profit Figure for Kerrigan Ltd					
Units	80000				
Per Unit Sales	£ 13.00		FV		£ 360,000.00
Total sales	£ 1,040,000.00		VC	£ 7.00	£ 560,000.00
			Total Cost		£ 920,000.00
			Profit		£ 120,000.00

Answer to the question No-1(d)

Limitations of Breakeven Analysis:

1. BEP is calculated on the basis of assumptions. The assumption is that all the expenses and cost can be explicitly separated into variable cost and fixed cost. But in practical life it is not plausible to attain a clear-cut allocation of variable and fixed cost. There are some semi-variable costs which are not considered in BEP
2. BEP presumes that Fixed cost is constant at all levels of business operation. But Fixed cost may change after a certain level of production.
3. Another assumption of BEP is that it assumes that variable costs differ proportionately with the changed volume of the output. But in practical use, they do not necessarily change with direct proportions.
4. BEP presumes that Sales price remains constant proofing a straight line revenue. But it nit always true. Selling price depends on specific factors like supply in the market, demand of the product, Market competition etc. and these factors may change over the time.

5. The assumption that exactly one product or the product mix will be constant is not always feasible in practical business operations.

Answer to the question No-2(a)

Importance of Management accounting:

Management accounting is concerned with the financial information that assists to make managerial decisions. Management accounting gives key insights of business operations or transactions that help the management team make long term and short term decision with appropriate planning strategies (Datar et al., 2018). It prepares financial reports and records with precise by collecting precise and measurable data to present the data to the directors to make the decisions. It breaks down, measures and translates the data with proper recognition to foster the organisation's objectives and goals. The importance of management accounting can be;

- Performing relevant cost analysis
- Using tools to make constructive production decisions
- Identifying the signs of operational problem in production
- Rationalizing the ability of resource consumption.
- Planning future business improvements.
- Making accurate budgetary decision

Difference between Management accounting and Financial accounting

Management accounting is the process of identifying, analysing, interpreting, measuring and communicating financial data or information to achieve organisational goal. The reports that are prepared but the management accountants, are focused on operational reporting and presented to the internal users (Horngren, 2008). On the other hand, Financial accounting is the process of summarising and recording the related transaction of a business operation. The reports prepared by the financial accountant are presented to the public users or external users of the company. Financial accounting is focused on external stakeholders, regulators or the public. Management accounting shares its information within the company. Management

accounting analyses the past information of the organisation and makes forestation improve business performance (Kieso et al., 2010). But financial accounting is baes on historical information and the prepared financial information contains information of a defined period of time. For this reason, the information of financial accounting is concise and generalised. Information is more transparent and less revealing to the external users. On the other hand, information of Management accounting report is more revealing and well explained to make managerial decisions.

Answer to the question no-2(b)

The objectives of management accounting are to maximize business profit and minimize the cost of operation. Beside it assist management in the process of planning and decisions making. Three techniques of management account to achieve the objectives are discussed below;

Financial planning with trend analysis

Management account can assist in financial planning with specific budget plans. The plan can be long term or short term (Kieso et al., 2010). The different trend analysis of accounting will help to determine the accurate fund requirements, allocation of the resources and Howe to invest the resources. Management accounting will help to achieve the objectives by tools through the implantation of financial procedures and policies

Analysis of Financial Statements:

The analysis of financial statement can be done by ration analysis, cash flow analysis, fund flow analysis. By analysing the managerial information, Management accounting helps making appropriate decision foe the organisation that will eventually assist in achieving organisational objective.

Determining Standard Costing:

Standard costing is a technique of calculating predetermined costs. It is the process of establishing standard cost within the most effective operating conditions. By comparting the

standard cost with actual cost and calculating the variances the management accountant can assume the future production costs of the business operation (Horngren, 2008). Besides, management can know the reasons behind increased productions costs and figure out the problems by taking necessary actions. So Standard costing technique is one of the most important accounting technique to achieve the objective of management accounting.

Reference:

Datar, S.M., Rajan, M.V. & Horngren, C.T., 2018. Horngren's cost accounting: A Managerial emphasis, New York, NY: Pearson.

Horngren, C.T., 2008. Introduction to management accounting, India: PHI Learning.

Kieso, D.E. et al., 2010. Intermediate accounting, Hoboken, NJ: John Wiley & Sons.

Usry, M.F., Hammer, L.H. & Carter, W.K., 1991. Cost accounting: Planning and control, Cincinnati: College Division, South-Western Pub. Co.