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LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

**EXAMINATION PERIOD
JUNE 2021 TERM**

**CYFNOD ARHOLIADAU
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 10.00am

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 is £350,000 and the company currently sells 75,000 units.

a) Calculate the break-even point of product A

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

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

BRAKE EVEB POINT is 14

This is the point above which the business starts make profit.

b) Calculate the profit for 75,000 units

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

c) The company will make an advertising cost £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 unites. 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

$$\text{Profit made} = \text{revenue} - \text{total cost} = 1,040,000 - (\text{variable cost } 560,000 + \text{fixed cost } 360,000) = 1,040,000 - 920,000 = \text{new expected profit is } 120,000$$

New break event point unit is 60,000

New break event point revenue is 780,000

d) Limitations of break-even analysis.

Break-even analysis (BEA) is very important starting point to every analysis but also has its own restrictions according to its specifics to the method.

1. This method accepts that all planned stocks are old out, which is often not real.
2. All the calculations addresses to only one product. If products are more than one than planning becomes very hard

3. It gives no information about the competitors of the company and all aspects in that direction
4. If management decides to rise the prices it won't be reflected by this method. Such rises could bring as additional profit as unexpected losses.
5. BEA don't reflects on future promotions for some products. That influence some prices and it's margins
6. BEA don't reflects on prices of the suppliers, it's variations and changes
7. This type of analysis omit analysis on changes in the market or environment or every type of force majeure circumstances that could influent over the fixtures and numbers in great amount.

QUESTION 2:

a) Management accounting gives the possibility to every member of the governing body to find out how the everyday life of the company goes. It also forms the picture of company's performance in respective period. Based on the numbers good and appropriate decisions could be made. Figures give real presentation how the business goes in general.

Managerial accounting operates with the figures and numbers that describes everyday life in the company. It provides data, analyzes it in short term periods, gives the possibility of meaningful discussions in appropriate time so the appropriate actions be taken accurately and in fresh terms. Managerial accounting is to find the small insignificant problems on time so it could be easily removed. It also finds inconsistencies in finances that reflects in current figures.

Financial accounting gives information about investors, shareholders and subjects outside the business, who have interest in it. Financial accounting forms in general the extended uses of the company. It's perspectives for further investments, future targets or making politics for expansion or implosion. Financial accounting is something like immune system for every business. It shows when the "organism" is health and is available for further expansion or is ill and should have some rest.

Managerial accounting is the main part of the Financial accounting. It forms all positive results, but also problems that reflects in Financial accounting. Financial accounting and it's results is fully depend on the working rate of the Managerial accounting.

The main objective for the Managerial accounting is to assist the management of the company in efficiency in its running. This type of accounting generates different statements, figures, reports, different kind of documents – all these helps managing body in their run for success.

b) Three of many technics management accountant definitely should observe are:

- accuracy in providing and storing the incoming data
- constant current control over figures and methods by which the results are formed
- close relations between accounting department and governing body

Providing information is not quit enough for making correct analysis and therefor making proper decisions. The accuracy in providing data should be a constant target to every accountant. Incorrect information or provided in appropriate way will bring inadequate figures that results in useless accounting. Useless, because all subsequent decisions will step on slippery basis.

Constant control over figures is something that will secure timely decisions of stopping negative processes. Methods of processing all data is of a great importance. Inappropriate or incorrect processing of incoming data can bring as unreal positive results as negative ones that can decrease real value of the company. Making reports, compilation of different type of documents or al kind of analysis could mislead the governing body if the information is not correctly processed.

Relation, connections and informational channel between accounting department and governing body has to function fluidly. Everything that happens currently with the figures and numbers has to reach governing body in recent order. Only than an adequate decisions, analysis and etc. could be made.

Planning and all that staff for further development and capitalizing of the company depends on providing an appropriate, current and timely data plus constant control over its processing and supplying all the accounting product to the governing body timely.

Accounting could be compared to blood picture if one company is considered as a live organism. Checking it in current levels decreases significantly risk of unwanted results.

REFERENCE LIST :

Jaedicke, R.K. and Robichek, A.A., 1964. Cost-volume-profit analysis under conditions of uncertainty. The Accounting Review, 39(4), p.917.

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

Mantaluța, A., 2021. THE ANALYSIS OF THE ENTERPRISE PERFORMANCE THROUGH ECONOMIC AND FINANCIAL INDICATORS. InterConf, pp.18-23.