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Accounting Fundamentals

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Assignment 2

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Question 1

$$\text{F.C} : £ 180,000$$

$$\text{S.P} : £ 5.75$$

$$\text{V.C} \left\{ \begin{array}{l} \text{Others Direct Costs} : £ 0.40 \\ \text{Direct Labour} : £ 1.35 \\ \text{Direct Materials} : £ 1.75 \end{array} \right.$$

Company currently sells 90,000

Required

$$\text{a) CONTRIBUTION} = \text{SELLING PRICE} - \text{VARIABLE COSTS}$$

PER UNIT	PER UNIT	PER UNIT
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$$\begin{aligned} \text{CM} &= £ 5.75 - (£ 0.40 + £ 1.35 + £ 1.75) \\ &= £ 5.75 - £ 3.5 \\ &= \boxed{£ 2.25} \end{aligned}$$

$$\text{BREAK EVEN POINT} = \frac{\text{FIXED COSTS}}{\text{CONTRIBUTION PER UNIT}}$$

$$\text{BEP [units]} = \frac{180,000}{2.25}$$

$$\text{BEP [units]} = \underline{80,000}$$

$$\begin{aligned} \text{BEP [revenues]} &= 80,000 * 5.75 \\ &= \boxed{£ 460,000} \end{aligned}$$

$$\begin{aligned} \text{(b) PROFIT SALES} &= (90,000 - 80,000) * 2.25 \\ &= \boxed{£ 22,500} \end{aligned}$$

c) Advertising campaign : £12,500

Direct materials = £1.75 + 15p = £1.90

Direct labour = £1.35 + 5p = £1.40

Selling price increased by 25p

Initial selling price £5.75 + 25p represents selling price increased which is equal : $SP = 5.75 + 25p = £6$

Increase sales by 5%

$$30,000 \times 5\% = 4,500$$

$$\Rightarrow \text{Sales} = 4,500$$

$$30,000 + 4,500 = 34,500$$

$$F.c : £180,000 + £12,500 = 192,500$$

$$V.c : (£1.90 + £1.40 + £0.40) = £3.7$$

Currently company sells 34,500 with new improved models

$$CM = £6 - £3.7 = £2.3$$

$$BEP [units] = \frac{192,500}{2.3}$$

$$BEP [units] = 83,695.65$$

$$BEP [revenues] = 83,695.65 \times 6$$

$$BEP [revenues] = £502,173.9$$

$$\text{Profit sales} = (34,500 - 83,695) \times 2.3 =$$
$$= £24,851.15$$

1) Limitation of break-even point analysis.

Variable costs will automatically increase in rapport with the level of activity

For example if you request more labours to finalise a construction project in a deadline time you need to order material in big quantity, so costs will increase.

The quality of services and goods offered in order to accomplish the expectation of the customer, at some point some particular costs will truly vary

It is well known, in the MarketPlace there is many competitors selling the same product at the same price, so there is a competition between them, therefore fixed costs will only remain fixed to a certain point.

Question 2

(a) According to Libbey and Waterhouse (1996) management accounting is classified into five wide-ranging categories, such as planning, controlling, costing, direction and decision making.

Management accounting provides vital information regarding the evolution of the business and internal decision needs to be taken by managers.

Managers need to prepare financial reports, as

→ a periodically internal audit should be included to investigate the business is in accordance with law.

Control Audit help to achieve the objectives of the business following the legislation of the law. Briceu S (2006)

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References

- 1) T. Libley, S.H. Waterhouse Predicting change in management accounting systems
Management Accounting Research, 8 (1996), pp. 137-15
- 2) Briceu, S. (2006), Contabilitate managerială.
Aspecte teoretice și practice, București; Ed. Economica, p. 14