

LOCATION: LONDON

LLEOLIAD: LLUNDAIN

LEVEL 4

LEFEL 4

EXAMINATION PERIOD
JUNE 2021 TERM

CYFNOD ARHOLIADAU
MEHEFIN 2021 TYMOR

MODULE CODE: LCBB4001
COD Y MODWL: LCBB4001
ACCOUNTING FUNDAMENTALS

TIME: 9:00AM TO 4:00PM

Name : Roxana Mara Niculita

Student ID : 2021943

Date & Time : 27.08.2021 15.00PM

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. **[10 marks]**
- (b) Calculate the profit made on sales of 75,000 units. **[10 marks]**
- (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]**
- (d) Discuss the limitations of break-even analysis. **[15 marks]**

QUESTION 2

- (a) Discuss the importance of management accounting, and how it differs from what financial accounting provides. **[25 marks]**

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

Table of Contents

ANSWER 1	5
ANSWER 2	7
Part A	7
Part B	7

ANSWER 1

(A)

Break even profit in units is given as.

$$\text{Break Even Units} = \frac{\text{Fixed Costs}}{(\text{Selling Price Per Unit} - \text{Variable Cost Per Unit})}$$

Here,

- Selling price= £11
- Fixed costs= £350,000
- Variable cost per unit=£6

Therefore, the break-even in units is as follows.

$$= \frac{350,000}{(11 - 6)}$$

= 70,000 units.

In revenues, this is equivalent to \$770,000 as the selling price is £11.

(B)

Particulars	Amount
Total Units	75000
Selling Price	11
Total Revenues	825,000
Less: Fixed Costs	350,000
Less: Variable Costs	450,000
Total Profit	25,000

£25,000 is the profits made on the sale of 75,000 units.

(c)

Based on new estimates, the variable cost per unit is expected to increase by £1 per unit and this is expected to help the selling price increase to £13. Based on this estimate, sales is expected to be at 80,000 units. In addition, the advertising campaign costed £10,000.

Based on this estimate, the revised profits is calculated as follows.

Total Sales: £10,40,000

Fixed Costs: $350,000 + 10,000 = £360,000$

Variable Cost Based on 80,000 units is £560,000

Thus, revised profit estimate is as follows.

Particulars	Amount
Sales	10,40,000
Less: Fixed Costs	360,000
Less: Variable Costs	560,000
Profit	120,000

£120,000 is the profit based on the new estimate.

(d)

Break-even analysis is used in modern-day corporate finance to identify the situation where the company's profit is 0. This implies that it is the point at which the operating profit is 0. The limitations of break-even analysis is as follows.

- In break-even analysis, it difficult to segregate and differentiate between fixed and variable expenses.
- Break-even analysis assumes that the fixed costs is assumed to be constant at all levels of activity. However, in reality lx fixed costs tend to vary and may be different at different periods of time or production levels.
- Break-even analysis assumes that variable costs vary proportionately with the changes in the volume of output.
- A assumption of the break-even analysis is that selling price remains unchanged. This assumption is not valid as selling prices often fluctuate.

ANSWER 2

Part A

Management accounting helps companies in making plans for the future. It helps in supplying non-financial and financial data to the management on regular basis. This helps the managers in analysis the performance better and in forecasting in framing plans properly. Management accounting differs from budgetary bookkeeping. It is beneficial as it benefits in factors such as planning and decision-making. Management accounting helps organisations in Planning business activities and is presented on regular intervals and the presentation includes budgets, in-depth analysis and forecasts. It helps in assisting businesses and manage the activities incurred. Decision making in management accounting is said to present forecasts, analysis of business and charts. This helps the company in making decisions for the betterment of the business operations such as identifying problems in products and strategic management. They identify problems with products on an early stage if they are not doing well and mend it accordingly. This identification is done on a regular basis and helps the company in overcoming future losses and constraints. In strategic management, businesses can make decisions about whether they should continue a product or not. As management accounting is not regulated by law, the management has the advantage to decide the portion that needs more analysis and investigation on the basis of strategies.

The main difference between financial and management accounting is that financial accounting stresses on giving a fair and true view on the financial position of the company whereas management accounting aims to provides information that is qualitative and quantitative in nature. Financial accounting focuses only monetary information whereas management accounting focuses on both monetary and non-monetary information. The main objective of financial accounting is to provide financial information about the company to outsiders whereas management accounting focuses on decision making and management process which helps in increasing the profitability of the business. The access of financial accounting is to both internal and external parties but in case of management accounting, only internal management can access it. The reports of financial accounting are in a specific format in which the financial position of the company is mentioned whereas detailed report about various information is provided in management accounting.

Part B

The techniques used by management accountant in order to achieve their objectives and goals are discussed below:

Margin analysis: This technique mainly concerns with benefits related to optimizing production. In Managerial accounting, margin analysis is one of the most essential and fundamental techniques. The calculation of breakeven point is included as in this technique and it mainly determines the optimal sales mix for the products of the organisation being analysed. This technique also flows into the break-even analysis that includes calculations related to contribution margin which is determined on the sales mix. It also helps in determining the unit volume in which businesses gross sales is equal to the total expenses. This technique will help the management in achieving their objectives of calculation of the breakeven point of the company which helps them in deciding the prices of the products, preparation of a business plan and setting the sales budgets.

Capital budgeting: This technique mainly analysis information that is required in the making of decisions of a company which is related to capital expenditures. The managerial accountants are required to calculate the internal rate of return (IRR) and net present value (NPV) in capital budgeting analysis. This helps the managers in the organisation to take decisions on their new capital budgeting. This technique helps them take the most profitable and efficient decision to achieve goals and also helps them to understand the risks involved in the investment opportunity and how these risks will affect the company's returns.

Trend Analysis and forecasting: Trend analysis and forecasting are used by the managerial accountants in order to identify trends and patterns of the costs of products. This helps the company in recognising unusual variances with the help of the forecasted values. This technique helps the company recognise future dangers and work on it presently so that they can avoid it. The trends in managerial accounting includes the consumer profitability reporting, applying analytics, financial forecasts and channel. This technique will help the company in analysing the sales growth, interest rates, inventory levels and also indicate failure at the early stages.