COVER PAGE AND DECLARATION

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Introduction

The assessment tends to develop an understanding of managerial accounting processes by emphasizing on absorption and variable costing. The case scenario of Swipe 50 features profit statement in relation to absorption and variable costing and reconciliation of profits. Furthermore, the analysis tends to compare absorption and variable costing process and underlining importance of both methods by highlighting improvement for Swipe 50 Ltd.

1 Profit Statement for Swipe 50

The available information of case Swipe 50 features that the laptop screen protectors made by Swipe 50 limited are highly regarded in the industry. A laptop's screen can be protected from scratches with the use of the plus swipe. Since the business has been up and running for three years and its production process is now well-honed, the board of directors has decided to measure the income and expenses generated by the company's operations.

1.1 Absorption Costing

According to Drury (2018), assigning all direct and indirect costs of production to the units produced is the basis of absorption costing, a method of manufacturing cost accounting. To calculate the total cost of production, absorption costing factors in both variable and fixed expenses. Expenses for indirect materials and labor, as well as those for both variable and fixed overhead, are included. For financial statements to be presented, GAAP mandates the use of absorption costs. To ensure that they are able to recover their production costs and still turn a profit, many manufacturers utilize this technique to calculate the true cost of making their goods (Omesi, 2022).

For the month of February

Profit Statement using Absorption Costing		
Sales		253,000
COGS		
Direct Material	€ 29,000	
Direct Labor	€ 19,000	
Variable production Overhead	€ 7,300	
Fixed Production Overhead	26,312	

Total COGS		€ 81,612
Gross Profit		171,388
Expenses		
Variable Expenses	€ 40,940	
Fixed Selling	€ 16,160	€ 57,100
Net Profit		114,288

For the month of March

Profit Statement using Absorption Costing		
Sales		341,000
COGS		
Direct Material	€ 33,250	
Direct Labor	€ 22,000	
Variable production Overhead	€ 8,500	
Fixed Production Overhead	30,572	
Total COGS		€ 94,322
Gross Profit		246,678
Expenses		
Variable Expenses	€ 47,569	
Fixed Selling	€ 9,531	€ 57,100
Net Profit		189,578

1.2 Variable Costing

As per Hansen et al. (2021), the term "variable costing" refers to a system of manufacturing cost accounting in which only the costs that vary depending on output level are included in the final product price. To calculate the total cost of production, variable costing only factors in direct materials, direct labor, and variable overhead costs, all of which fluctuate based on output levels. As further highlighted by Weygnadt et al. (2020) that, it is not required by GAAP for use in external financial reporting, variable costing can be helpful in guiding day-to-day operations. The contribution margin, defined as the revenue surplus over variable expenses, can be determined in this manner.

For the Month of February

Profit Statement using Variable Costing		
Sales		253,000
COGS		
Direct Material	€ 29,000	
Direct Labor	€ 19,000	
Variable Overhead	€ 7,300	
Total Variable COGS		€ 55,300
Contribution		197,700
Expenses		
Variable Selling and admin expenses	€ 40,940	
Fixed Selling and admin expenses	€ 16,160	€ 57,100
Net Profit		140,600

For the Month of March

Profit Statement using Variable Costing		
Sales		341,000
COGS		
Direct Material	€ 33,250	
Direct Labor	€ 22,000	
Variable Overhead	€ 8,500	
Total Variable COGS		€ 63,750
Contribution		277,250
Expenses		
Variable Selling and admin expenses	€ 47,568.97	
Fixed Selling and admin expenses	€ 9,531.03	€ 57,100.00
Net Profit		220,150.00

The above calculation showcases that the profits are higher under variable costing for both February and March. This is because variable costing only includes the variable costs in the cost of production, which means that fixed production overheads are treated as a period cost and are not included in the cost of production (Weygandt et al., 2020). As a result, the cost per unit under variable costing is lower, which leads to higher profits.

2 Reconciliation of Profits

Depending on how detailed the company wants to be, an absorption costing income statement can either present variable direct costs and fixed direct costs as separate line items, or it can report a combined COGS for both. Furthermore, Mekonnen et al. (2019) signified that once revenue is calculated, expenses are subtracted to provide the gross profit. Absorption costing causes an increase in COGS and a decrease in gross profit per unit produced. This would increase the per-unit breakeven cost for businesses. Also, this will lead to a slight increase in the retail price paid by consumers. Also, it implies that businesses' gross profit margins would certainly be reduced.

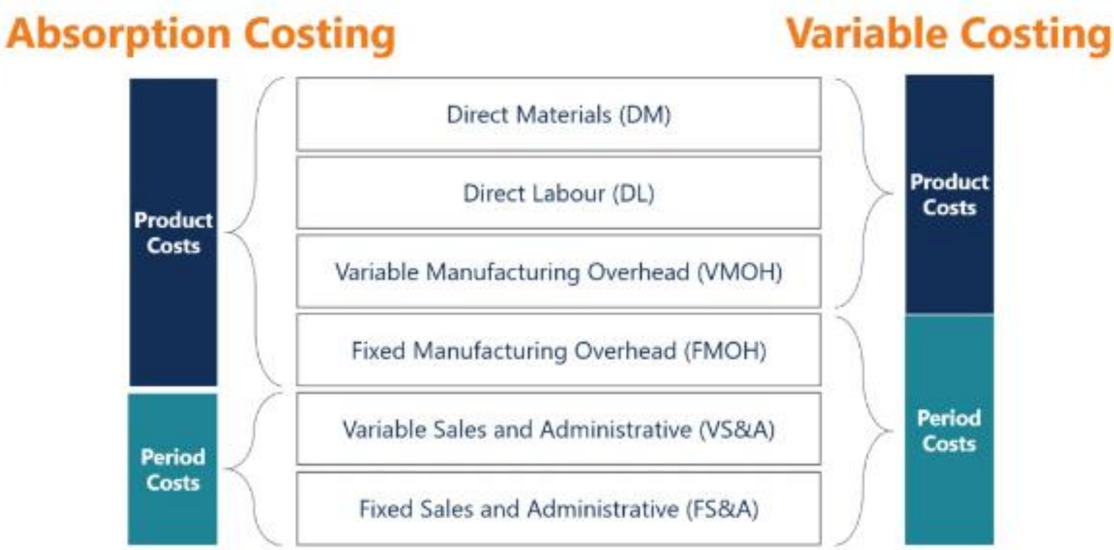
Cost accountants who make use of absorption costing must keep these factors in mind at all times. Absorption costing is the standard method of calculating COGS for most businesses. Most external auditors and financial stakeholders would insist on it for reporting purposes. Depending on their legal form, certain small businesses will be required to employ absorption costing while filing their taxes.

3 Differences: Absorption costing vs Variable Costing

Prior to comparing the two approaches, it is necessary to define and appreciate the value of fixed overhead costs. By definition, fixed overhead costs are those that remain constant regardless of output such as rent, insurance, full-time staff pay, and equipment leasing fees which persist independently of total sales or output levels (Drury, 2018). Cost of products sold and inventory costs are the two primary types of fixed overhead that this process often reveals.

3.1.1 Absorption

The absorption costing technique is used to assign both fixed and variable expenses to products. Absorption costing accounts for every expense incurred during production, from raw materials to employee salaries to fixed and variable overhead (Nan, 2019). So, regardless of the quantity manufactured, the unit cost always include some proportion of the fixed production overhead costs which is added to the cost of goods produced. This method of costing adheres to generally accepted accounting principles by including all costs associated with the production of the product, including those associated with raw materials, direct labor, variable overhead, and fixed overhead (CFI, 2019).



Source: (CFI, 2019)

- The ability to incorporate both fixed and variable manufacturing costs into a comprehensive pricing strategy is a key benefit of the absorption costing method. It guarantees that product pricing takes into account all production costs (Fisher & Krumwiede, 2015). By doing so, businesses can avoid the complicated and inaccurate process of parsing expenses into fixed and variable components.
- Since all advertising and promotion costs are recorded in one time frame, it is much easier to calculate a firm's true profit margin using this accounting method.

The main problem with this approach is that some of the period costs are irrelevant and should not be factored into the cost of goods and inventory (Hasan, 2015). While this is preferred by some businesses because it boosts profits for a given reporting period, however it has the potential to artificially inflate profit amounts in that period by preventing the full deductibility of fixed overhead costs depending on whether all, none, or a subset of the manufactured goods have been sold; thus, the reporting period's profitability analysis, this may be deceptive.

3.1.2 Variable

In variable costing, only the costs that fluctuate throughout production are factored into the final price of the product. Costs that remain constant from period to period, such as those associated with fixed production overhead, are deducted from earnings in the same period they are incurred (Gersil & Kayal, 2016). In other words, these costs are not included in the final price of the product but are deducted in one go from the total revenue. In contrast to absorption costing, this method of costing treats all fixed overhead expenditures as a single expense and records them in a single section of the income statement.

- The primary advantage of variable costing over absorption costing is that it isolates the most important expenses incurred during the creation of a product or service (Fisher & Krumwiede, 2015)
- This method of costing aids in the creation of an income statement via the utilization of a contribution margin, which in turn aids in the acquisition of more accurate data for a cost volume profit analysis (CVP) analysis (Hasan, 2015).

Absorption Costing	Variable Costing
All manufacturing costs are treated as fixed costs	Only direct labor and direct materials are considered as part of the manufacturing cost
Fixed manufacturing overhead is treated as a product cost	Fixed manufacturing overhead is treated as a product cost
Inventory is valued at the full cost of production, including both fixed and variable costs	Inventory is only valued at the variable cost of production
All income statement items are reported on a per unit basis	Only variable costs are reported on a per unit basis
Used for financial reporting and tax purposes	Used for internal decision making

However, when the manufactured goods are sold from inventory, the company will record only income with no matching expense. So, businesses must disclose full payment of all fixed overhead expenses in the reporting period in which they occur, which a drawback of variable is costing. Although Variable Costing appears to account for more costs, it is not a GAAP approach because all revenue and expenses connected to a given item must be recorded in the same reporting or accounting period. Another drawback of variable costing is that it cannot be used for external reporting because it does not account for the allocation of fixed production expenses

(Gersil & Kayal, 2016). Yet, variable costing is still widely used by corporate managers for tasks such as performing break-even analyses, calculating contribution margins, and bolstering decision-making in the service of boosting operational efficiency.

4 Importance

Based on an examination of the salient features of each costing method, it can be concluded that variable costing is the more appropriate choice for businesses that produce a wide variety of products. Because it greatly aids in calculating the true earnings made from each product line (Hasan, 2015). Nonetheless, absorption costing is a useful tool for companies working on a single product line since it allows for more precise pricing on a per-unit basis. This is due to the fact that with absorption costing, all production expenses are included in product prices (Franklin et al., 2019). While variable costing seems to go against the matching principle, which dictates that all income and expenses should be recorded during the same accounting period, companies are only permitted to utilize absorption costing in accordance with accounting rules.

- Absorption costing is important for external financial reporting because it is required by GAAP. It reflects the full cost of producing a product, including both fixed and variable costs (Hojna & Stryckova, 2018). This is important for financial reporting purposes because it provides a more complete picture of the costs involved in producing and selling products.
- Variable costing is useful for internal management purposes because it separates fixed and variable costs, which can help managers make decisions about pricing, product mix, and production levels. Since fixed costs are not included in the cost of a product under variable costing, managers can more easily see the impact of changes in production levels on the profitability of individual products (Sinambela et al., 2022). This can be particularly useful for managers who are trying to optimize their product mix or evaluate the impact of changes in overhead costs.

5 Ways to improve Accounting System

Managerial accounting aids in the forecasting and planning processes of a company by providing useful information on production performance. When utilized for strategic long-term planning, Managerial Accounting proves to be an invaluable tool for allocating resources effectively.

Here, three most significant ways in which Swipes 50 Limited's Managerial Accounting System might be enhanced.

5.1 Budgeting

Maintaining an accurate accounting system is not a quick or simple task where budgeting and planning are also crucial by which the success of a business is judged. Huang & Hunag (2019) have delineated that an efficient Managerial Accounting System, in which budgeting and forecasting play essential roles, is crucial for a company to fulfill its goals and objectives. Each division can have a voice in shaping the company's direction by offering suggestions during the budgeting process; nevertheless, careful planning and clear assignment of responsibilities is essential for a successful budget (Rogulenko et al., 2016). Accurate budgeting and forecasting will provide invaluable insight to management, allowing them to root out and correct for any unforeseen issues that may arise and boost the company's bottom line.

5.2 A/B Costing

According to the provided information outline for Swipes 50 Limited, the company only produces a single product, so all of its overhead-expenses/costs must be applied specifically to the manufacturing of that product (Jalalabadi et al., 2018). However, there may be some overhead costs that are unrelated to the product and/or are occurring for no reason at all.

By switching to an activity-based costing system, Swipe 50 can break out departmental expenses and add only the necessary overhead for each product. The method will reduce or do away with the need for tasks that don't offer value to the business, which will boost profits (Chouhan et al., 2017). In addition, a company like Swipes 50 Limited can use the data provided by activity-based costing to determine the precise profitability of producing each new product. As Absorption Costing divides the whole amount of manufacturing overhead by the total number of units produced, Activity-Based Costing is a far more dependable and precise cost allocation approach.

5.3 Accounting expert

Employing an expert accountant is a good way for Swipes 50 Ltd. to strengthen its accounting processes. This accountant has extensive experience in financial reporting, tax preparation, and analysis, and more (Damayanti, 2019). They can aid in pointing out places where the books could want some tweaking and can offer advice on making sound financial decisions. The company benefits from having an experienced accountant on staff since this increases the reliability of financial reporting and gives managers access to valuable insights that can boost the business' bottom line.

6 Why managing Accounting jobs

Accounting's importance in the financial management of a manufacturing organization cannot be overstated.

- As per Pratt & Peters (2020), financial statements including income statements, balance sheets, and cash flow statements can be prepared with its assistance. In order to make sound economic judgments, control costs, and maintain a healthy bottom line, a firm needs access to reliable financial data.
- Manufacturing organizations' complicated production processes have several potential expense sources. Profitability and survival in a competitive market are directly tied to how well costs are managed (Chychyla et al., 2019). Costs can be identified and monitored with the use of accounting, which also allows for the examination of price changes and the creation of plans to cut expenses and boost profits.
- Businesses in the manufacturing sector must adhere to a number of laws and report on certain data. Accounting is the process through which a business verifies and confirms that its financial transactions and reporting are in accordance with applicable laws and regulations (Dawning & Langli, 2019). Penalties, legal troubles, and reputational damage might occur from disobeying these restrictions.

Accounting is vital for both planning and budgeting since it supplies crucial data. Reliable financial data aids in spotting expansion opportunities, creating sensible budgets, and allocating resources efficiently. To be successful, a manufacturing company must have solid plans and budgets.

6.1 Management accountants job roles

A management accountant's responsibilities span the entire organization, making their job crucial. The management accountant is responsible for gathering, analyzing, and reporting financial information from potentially multiple departments or divisions (Otley, 2016). Budgets and predictions must be monitored and analyzed so that funding suggestions can be made.

When reporting to upper management and the board of directors, the management accountant must coordinate with all relevant business divisions to conduct a comprehensive review of the company's working capital and available money. Directors and CEOs rely heavily on the information provided by the management accountant before acting. Management accountants are responsible for providing input to the decision-making process by keeping tabs on the internal expenses of any business process that affects the company's ability to make production, operation, and investment decisions (Dahlan, 2019). To properly allocate resources between production, sales, and investment, businesses rely on the insights provided by management accounting and the management accountant.

Therefore, a management accountant's contributions to a company's performance are vital. A management accountant plays a crucial part in the success of an organization. Timeliness is essential in many of a management accountant's duties, such as forecasting, budgeting, and reporting, so that plans can be put into action promptly in times of crisis. Due to the volatility of the market, timely forecasting is essential. Management accountants are responsible for ensuring the reliability of the data used to guide business decisions. Finally, a management accountant needs to know everything that could affect the company's finances, including the political situation that could affect the market, inflation, other exposures in the market, competition, cost of labor, raw material, internal operations, coordination among different departments within a company, and its interaction with the rest of the business world.

7 Conclusion

Managerial accounting is the process of providing management with the facts they need to define, evaluate, present, and related information in order to make better strategic decisions and reach their goals. Managerial accounting shines in high-pressure, high-velocity markets where quick choices are essential.

Managerial accounting summarizing all the transactions during a period of time to be presented in statements, reports and documents that help management decision makers and primarily used for internal uses for better planning, organizing, directing, and controlling with these functions in the following ways:

- Provides useful data – relevant and faithfully presented.

- Analyzes data and presents using the proper ratios.
- Aids meaningful discussions: as a means of communicating a course of action throughout the organization. In the initial stages, it depicts the organizational feasibility and consistency of various segments of a plan. Later, it tells about the progress of the plans and the roles of different parties to implement it.
- Helps in achieving goals: It helps convert organizational strategies and objectives into feasible business goals. These goals can be achieved by imposing budget control and standard costing, which are integral parts of management accounting.
- Uses qualitative information: Management accounting does not restrict itself to quantitative information for decision-making. It takes into account qualitative information which cannot be measured in terms of money. Industry cycles, strength of research and development are some of the examples qualitative information that a business can collect using special surveys.

The main objective of managerial accounting is to maximize profit and minimize losses. It is concerned with the presentation of data to predict inconsistencies in finances that help managers make important decisions. Its scope is quite vast and includes several business operations. The following points discuss what management accounting can do to make a business run better.

1. Managerial accounting is a rearrangement of information on financial statements and depends on it for making decisions. So the management cannot enforce the managerial decisions without referring to a concrete financial accounting system.
2. What you can infer from financial accounting is limited to numerical results like profit and loss, but in management accounting you can discuss the cause and effect relationships behind those results.
3. Managerial accounting uses easy-to-understand techniques such as standard costing, marginal costing, project appraisal, and control accounting.
4. Using historical data as a reference, the management observes the current information to check the impacts of business decisions.
5. Management can use this type of accounting to set objectives, format plans to meet them, and compare the performance of various departments.

6. Managerial accounting is used for forecasting. It concentrates on supplying information that would ease the effect of a problem rather than arriving at a final solution.

Managerial accounting may define the pace and process of development of an organization yet it has its set of drawbacks. By now, we know that the information to make managerial decisions is dependent on financial statements. Due to this, the strength or weakness of accounting decisions made depends solely on the quality of basic records. Meanwhile, different managers may interpret the same information in different ways depending on their capacity and experience in the field. That way there might be bias in decision-making process.

A managerial accounting system is more suitable for bigger enterprises which are at the peak of growth. This is possible because the company can afford the price of installing a system in place and even hire professionals to make the best of it to prevent the company from future meltdowns.

Swipe 50's cost estimate demonstrates that profits are greater in both February and March when using variable costing. This is due to the fact that fixed production overheads are not factored into the cost of production when using variable costing because they are considered a period cost. For Swipe 50's Managerial Accounting System, the three most important suggestions are to make use of the existing budgeting system, implement activity-based costing, and consult an accounting specialist.

As a GAAP requirement, absorption costs is crucial for publishing publicly available financial statements. Yet, variable costing is helpful for internal management since it helps distinguish between fixed and variable expenses, which in turn informs pricing, product mix, and output decisions. Managers can use this information to assess the effects of changes in overhead expenses and improve their product mix.

Planning and budgeting rely heavily on the information provided by accounting. Having access to accurate financial information is helpful for detecting growth prospects, making practical budgets, and allocating resources effectively. A manufacturing company's success depends on their ability to successfully plan and budget. It follows that the contributions of a management accountant are crucial to the success of a business. An organization can't thrive without the contributions of a management accountant. Several of a management accountant's responsibilities, including budgeting, reporting, and forecasting, must be completed on time so that plans can be put into effect quickly in the event of a crisis.

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