COVER PAGE AND DECLARATION

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Student's Full Name:	Modather Hassan Mostafa El sayed El Sanabary
Student ID:	EIU2020527
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E-SIGNATURE: MODATHER HASSAN

DATE: 15 July 2023

EIU Paris City Campus
Address: 59 Rue Lamarck, 75018 Paris, France | **Tel:** +33 144 857 317 | **Mobile/WhatsApp:** +33607591197 | **Email:** paris@eiu.ac

EIU Corporate Strategy & Operations Headquarter
Address: 12th Fl. Amarin Tower, 496-502 Ploenchit Rd., Bangkok 10330, Thailand | **Tel:** +66(2)256923 & +66(2)2569908 | **Mobile/WhatsApp:** +33607591197 | **Email:** info@eiu.ac

MGT510: MANAGERIAL ACCOUNTING

MODULE ASSIGNMENT: MANAGERIAL ACCOUNTING REPORT

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1) INTRODUCTION

Management accounting or managerial accounting, management accounting helps the directors inside an organization to make decisions. This can also be known as Cost Accounting. This is the way toward distinguishing, examining, deciphering, and imparting data to supervisors to help accomplish business goals. [A]. Managerial accounting is a critical discipline of accounting that assist any company /organization to identify, analyze, estimate, and categories the accounting information required by the management accountant for a company's progress and output decisions, either financial or operational.

Following that, we will focus on representing Tamara J. Blooms, CFO of Swipes 50 Limited, the company that makes specialized screen covers for laptops. The firm has been in existence for three years. And now that the manufacturing process has been improved, the board members have decided to focus on the revenue and costs resulting from the operations of creating the Plus Swipe, the screen protector that prevents scratches on laptop screens. The underneath cost report will identify the costs from both accounting points of view (Absorption costing and Variable costing) for a certain time period between February and March in order to identify and measure the company’s operational performance and profit to facilitate and assist the decision-making of the concerned and involved parties.

1) Profit statement for Swipe 50 Limited for the month of February and March preparation

To start evaluating and observing the production performance of the factory and to assess the situation in both ways (Absorption costing and Variable costing) in the Income (Earnings/Profit) Statement of Swipe 50 Limited for the months of February and March, the following observations, notes, and calculations are mandatory to extract all required data from the information given to prepare a perfect statement and a clear vision for the factory production situation as shown in the table below (Table 1).

Notes to be considered for the calculations are as follows:

1) The Swipes 50 Limited's production capacity is 20,000 units per month.
2) Total selling and administrative expenses vary between the two months due to differences in production capacities. So, we can conclude that both fixed and variable costs for the factory depend on the following calculation: (The difference between total Selling and administrative expenses between March and February) divided by (The difference in the number of sales units between March and February)- (57,100 € - 44,500 €) / (15,500 unit -11,500 unit) = 3.15 € per unit, which is considered the variable Selling and Administrative Expenses per unit. Therefore, the total variable selling and administrative expenses for the month of February are a multiplier of 3.15 € per unit, and the unit sales per month are 3.15 € x 11,500 units (Feb) = 36,225 €. Meanwhile, the total variable Selling and Administrative Expenses for the month of March are a multiplier of 3.15 € per unit, and the unit sales per month are 3.15 € X 15,500 units (Mar) = 48,825 €. Based on these

findings, we can calculate the fixed selling and administrative expenses by deducting the variable selling and administrative expenses for each month from the total selling and administrative expenses. For February =44,500 € - 36,225 € = 8,275 €, and for March =57,100 € - 48,825 € = 8,275 €.

3) Fixed production overhead is 28,600 € per month for a total production capacity of 20,000 units, so budgeted capacity = 28,600 € divided by 20,000 units = 1.43 € per unit. Hence, there is a production volume variance in each month since the production of February is less than the factory production budget capacity by (20,000–12,500 units) multiplied by 1.43€ per unit, which is 10,725 € as a variance for February, which will be shown as an adjustment for the COGS (Cost of Goods Sold) Is the carrying value of goods sold during a particular period [B].”Note that all costs and expenses directly connected to the manufacturing of goods are included in the cost of goods sold (COGS), which excludes indirect costs like overhead, sales, and marketing that are subtracted from revenues (sales) to determine gross profit and gross margin. In the same way, the equivalent applies for the month of March (20,000–14,500) multiplied by 1.43 € = 7,865 € as a variance for March.

4) Cost of goods sold (COGS) is calculated by using the COGS formulation, which is expressed as: (Beginning Inventory + Production Cost) – Ending Inventory.

5) Table (1)

Table (1)

NO.	DESCRIPTION	FEBRUARY	MARCH
1	Production (Units)	12,500	14,500
2	Sales (Units)	11,500	15,500
3	Beginning Inventory (Units)	0	1,000
4	Ending Inventory (Units)	1,000	0
5	Direct Materials	29,000 €	33,250 €
6	Direct Materials cost/unit	2.32 €	2.29 €
7	Direct labors	19,000 €	22,000 €
8	Direct labor’s cost/unit	1.520 €	1.517 €
9	Total Selling and Administrative Expenses	44,500 €	57,100 €
	Variable costs		
10	Variable Production Overhead	7,300 €	8,500 €
11	Variable Production Overhead /unit	0.584 €	0.586 €
12	Variable Selling and Administrative Expenses	36,225 €	48,825 €
	Fixed costs		
13	Fixed Production Overhead	28,600 €	28,600 €
14	Fixed Production Overhead /unit	1.430 €	1.430 €
15	Fixed Selling and Administrative Expenses	8,275 €	8,275 €
16	Total Sales Revenues	253,000 €	341,000 €

2) Profit Statements - Absorption Costing for the period between February and March

Absorption costing or Total absorption costing (TAC) is a method of accounting cost which entails the full cost of manufacturing or providing a service. TAC includes not just the costs of materials and labors, but also of all manufacturing overheads (whether ‘fixed’ or ‘variable’). The cost of each cost center can be direct or indirect. The direct cost can be easily identified with individual cost centers. Whereas indirect cost cannot be easily identified with the cost center. The distribution of overhead among the departments is called apportionment. [C].

The first step to calculating the profit statement with the method of absorption approach is to calculate the Revenue/Sales revenue for each month (the number of units sold multiplied by the unit price) and get the difference between the Cost of goods sold (COGS) to get the gross profit. Then we will get the difference between the gross profit and the Total Selling and Administrative Expenses to get the final earnings for each month before interest and taxes.

ABSORPTION APPROACH			
NO.	**DESCRIPTION**	**FEBRUARY**	**MARCH**
1	Sales Revenue	253,000 €	341,000 €
2	Cost Of Goods Sold		
3	Cost Of Production	83,900 €	92,350 €
4	Beginning Inventory	0 €	6,712 €
5	Ending Inventory	6,712 €	0 €
6	Variance (Adjusted COGS)	10,725 €	7,865 €
7	Gross Profit	175,812 €	241,938 €
8	Total Selling and Administrative Expenses	44,500 €	57,100 €
9	Operating Income	131,312 €	184,838 €

3) Profit Statements - Variable Costing for the period between February and March

Variable costs are costs that change as the quantity of the good or service that a business produces changes. Variable costs are the sum of marginal costs over all units produced. They can also be considered normal costs. Fixed costs and variable costs make up the two components of total cost. [D]

Sales revenues should be calculated first to determine When the product is delivered or the service is done, it is recorded on the income statement for the corresponding month. For organizations of all kinds, sales income is absolutely the most frequently mentioned and important indicator, followed by the contribution profit margin calculation using the difference between the sales revenue and the variable direct cost and the variable selling and administrative expenses. Finally, operating income can be calculated using the difference between the contribution profit margin, the fixed direct cost, and the fixed sales and administrative expenses.

VARIABLE – CONTRIBUTION APPROACH			
NO.	DESCRIPTION	FEBRUARY	MARCH
1	Sales Revenue	253,000 €	341,000 €
2	Variable Cost of Goods Sold	55,300 €	63,750 €
3	Variable Selling and Administrative Expenses	36,225 €	48,825 €
4	Contribution Profit Margin	161,475 €	228,425 €
5	Fixed Cost	28,600 €	28,600 €
6	Fixed Selling and Administrative Expenses	8,275 €	8,275 €
7	Operating Income	124,600 €	191,550 €

4) Reconcile the profit calculated using absorption costing to that using variable costing.

The differences between the variance of the opening and closing inventories are summarized below to illustrate and reconcile the accounts of the two methodologies (Absorption approach and Variable – contribution approach) for the two months analyzed February and March. whereas the absorption cost approach would be higher in relation to the marginal cost in terms of net profit if production were higher than revenue.

RECONCILIATION STATEMENT			
NO.	DESCRIPTION	FEBRUARY	MARCH
1	The differences between the Operating Income under Absorption approach and the Operating income under Variable approach.	6,712 €	- 6,712 €
2	The differences between the Manufacturing Overheads of end. Inventory under absorption approach and the Fixed Manufacturing Overheads of beginning. Inventory under Absorption approach.	2,288 €	-1,972 €

5) Explain how each method differs from the other method and also explain the importance of each method.

Absorption costing approach and variable costing approach are two accounting practices and techniques to calculate the cost of goods sold that businesses and decision-makers use to recognize their cost of goods sold (COGS) and the value of their inventory throughout the operation process. Absorption costing approach includes all costs linked to manufacturing and operation, such as direct materials, direct labor, and fixed and variable overhead costs. On the other hand, variable costs include only variable costs incurred directly in production and do not include any of the fixed costs. Variable costing approach reports fixed overhead expenses as a single lump-sum charge apart from COGS, whereas absorption costing allocates fixed overhead costs to each unit produced within an accounting period. Finance mandates an absorption costing approach for external reporting and long-term accounting audit, while allowing the use of variable costing approach for internal analysis, decision-making and short-term accounting audit. Variable costing shows the effect of fixed costs on net income. It is also helpful for decision-making purposes since it separates fixed and variable costs, while Absorption costing can increase inventory value and gross profit.

In short-term estimate for pricing decisions, the contribution-margin (variable costing approach) is more effective since it makes the variable costs and expenses requested for the production clearer. Although the absorption technique, which takes into account all expenses associated with the process, is preferred for long-term costing, The effect of fixed costs on net income can be shown by using variable costing. Since it distinguishes between fixed and variable costs, it is also helpful for decision-making. The gross profit as well as inventory value may improve with absorption costing approach. And finally, to put it in a simple method, absorption costing is a management accounting technique for keeping track of all expenses related to a business's operations. All expenses, both direct and indirect, are attributed to the result. "Full costing" is another name for absorption costing approach. while the profitability of a company's operation can be assessed using the cost accounting contribution margin. Revenue is deducted from variable costs to determine the contribution margin. Generally Accepted Accounting Principles (GAAP) [E]. Illustrate a set of accounting guidelines, standards, and practices announced by the Financial Accounting Standards Board (FASB) [F]. Therefore, according to GAAP rules, most companies prefer to follow GAAP when their accountants record their financial statements, especially for external reports. However, as mentioned earlier, variable costing can be utilized for internal analysis and decision-making in accordance with the demands of the company.

6) Explain three ways that Swipes 50 Ltd. can improve its accounting systems.

A strong accounting system may assist top management and business owners in making the best decisions possible by delivering accurate and timely financial information. Furthermore, it must be able to give a precise view of the business's financial performance, planning, and budget. Additionally, a strong accounting system should be able to computerize many of the standard accounting procedures, including data entry and understanding. Hereinafter is an explanation of some of the known ways to improve accounting systems.

1. Encourage accounting staff within Swipes 50 Ltd. to obtain information electronically rather than via paper-based processes by offering training, and rewards, and raising awareness of the business's use of technology. They should also be made more aware of each stage of the accounting sequence and supported by auditing practices to ensure that data is updated with accurate numbers, which will result in accurate reports with true accounting outcome.

2. The use of software may be required to relieve stress on data entry and enhance the system used by business and operational processes. This depends on the size of the company and the operating industry. The features, functionality, price, and customer support offered by the software providers should all be considered when choosing the best accounting software to fit with Swipes 50 Ltd.

Software with functions that can speed up computing and manage accounting activities should be sought effectively. Recording invoices, expense tracking, taxes, bank reconciliation, inventory, human resources, customer relationship management (CRM), vendor listings, and more should be done conveniently and in a simple manner. Multiple departments of an organization can be integrated using ERP software for example (Enterprise resource planning) is the integrated management of main business processes, often in real-time and mediated by software and technology [G], or any other technology or software that enhances real-time reporting, Cost reduction by saving time on repetitive tasks, fewer errors, improved cash flow, increased productivity, and so many other benefits that improve the decision-making method for the top management of the company, since all the data is specified and consistently accurate .

3. Depending on many different management accounting techniques. The top management personnel use such various techniques, including but not limited to, marginal cost (The marginal cost is the change in the total cost that arises when the quantity produced is incremented, the cost of producing additional quantity) [H],analysis of operating profits (Earnings before interest and taxes (EBIT) is a measure of a firm's profit that includes all incomes and expenses (operating and non-operating) except interest expenses and income tax expenses) [I], and cost-volume-profit analysis (CVP), in managerial economics, is a form of cost accounting [J]. It is a simplified model, useful for elementary instruction and for short-run decisions, to see how changes in variable and fixed costs of the Swipes 50 Ltd. affect a company's revenue. Budgeting (Is a calculation plan, usually but not always financial, for a defined period, often one year or a month. A budget may include anticipated sales volumes and revenues, resource quantities including time, costs and expenses, environmental impacts such as greenhouse gas emissions, other impacts, assets, liabilities and cash flows. Companies, governments, families, and other organizations use budgets to express strategic plans of activities in measurable terms) [K],to improve future planning of the productive process, standard costs to obtain lessons learned from historical experiences, variance analysis to monitor planned costs versus actual costs, capital budgeting to enhance long-term planning of the productive process, and cost-plus pricing to define the markup percentage if required in some cases and analyze financial statements This helps them make better business decisions.

7) Why managing accounting jobs are important in a manufacturing company.

In manufacturing companies, managing accounting roles are important because it takes into account all actual and value-based costs associated with the production process / operations activities to improve the company's management and is not disclosed to external creditors and shareholders. Unlike Financial accounting is a branch of accounting concerned with the summary, analysis and reporting of financial transactions related to a business. This involves the preparation of financial statements available for public use. Stockholders, suppliers, banks, employees, government agencies, business owners, and other stakeholders are examples of people interested in receiving such information for decision/investment making purposes [L]. However, by providing all the data related to costs, market considerations, and profitability, managerial accounting will help managers set product prices and compare them to direct and indirect costs. Managing accounting must be managed effectively as it takes into account all actual and value-based costs associated with production and operating processes.

The role of the management accountant is also crucial to the success of the business. Given the scale of their responsibilities, a management accountant's miscalculation or underestimation of any business strategy can threaten the future of the company and all production operations process. To ensure the survival of companies, a management accountant uses both internal accounting processes and generally accepted accounting practices to find out the four bases of accounting (Cost, Revenue, Matching and Disclosure).

But while planning to carry out the operation, timing is a crucial factor. Since forecasts, budgets, and reports must be generated within a certain time frame so that they can be implemented immediately and without delay, when necessary, to avoid any financial risks may raise up, the tasks of a management accountant are time-bound. To accommodate market fluctuations, timely forecasting is very important. The budget must match available working capital and exposure to market risk, and so a certain degree of accuracy cannot be avoided by the management accountants. The management accountant must ensure that all the information collected is correct before reporting or issuing any reports in order to help make the best choice and examine the right path during the production process with actual monitoring.

In addition, in order to conduct a comprehensive study of the company's working capital and financing availability and to provide all this information to top management and the board of directors, the management accountant must cooperate with all business divisions related to production operations. Therefore, the management accountant is the primary source of information that managers and executives rely on to make the best decisions.

The success of the manufacturing companies in any operation organization depends on the role of the management accountant. The position and responsibilities of a management accountant are so broad that a single error of judgement or diminution of any business strategy can threaten the company's fate. Last but not least, a management accountant must be aware of everything, including the political climate that may have an impact on the market, inflation and other market risks, competition, labor costs, raw materials, internal processes, and coordination between various departments within the company (Direct and Indirect/ fixed and variable costs). As a result of its interactions with other companies, the company's management is informed in advance so that it can make financial decisions considering needs and resources.

The management accountant position is more important, or at least equally important, than most forms of business due to the unique complexity of a manufacturing firm.

8) Conclusion

The analysis reached the conclusion that the companies receive the accounting information needed by the management accountant for the decision-making process by using a variety of management accounting tools and methodologies to publish their reports. In intensely competitive industries, companies must adopt manufacturing technology and management accounting systems to maintain themselves and thrive. When making quick judgments in high-risk, fast-moving markets, management accounting is very useful, especially in the short-term decisions. These decisions can be related to cash flow management, budgeting, or pricing strategy. By studying operating statistics, managerial accounting may quickly clarify the situation and identify the right decision on the right time.

Companies develop a cost-effective structure for their products through the use of marginal and absorption approaches. Absorption costing approach is the term used to describe total profit that exceeds the marginal market cost in a way that benefits the company. Managerial accounts approach gives the company management information that it may use to develop strategic priorities and strategies for business expansion and development that help to identifying, evaluating, presenting, and communicating information to management in order to help them make strategic decisions and achieve their goals for the future.

1) REFERENCES

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