COVER PAGE AND DECLARATION

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MGT510 Managerial Accounting

Managerial Accounting Report

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Managerial Accounting Assignment Submission

- **The Profit Statements for Swipes 50 Limited for the months of February and March:**

Profit Statements using Absorption Costing for February and March

Profit Statement (using Absorption Costing)

Swipe 50 Limited		
February		
Sales (11,500 Units @ Euro 22ea)		€ 253,000
Less Cost of Goods (COG) Sold		
Beginning Inventory (0 Units)	€ 0	
Add COG Manufactured (12,500 Units)	€ 79,500	
COG Available for Sale (12,500 Units)	€ 79,500	
Less Closing Inventory (1,000 Units x Euro 6.36ea)	€ 6,360	€ 73,140
Gross Profit		€ 179,860
Less Selling & Administration Expenses		
Fixed Selling & Administrative Expenses	€ 36,225	
Variable Selling & Administrative Expenses	€ 8,275	€ 44,500
Net Profit for February (Using Absorption Costing)		€ 135,360

Profit Statement (using Absorption Costing)

Swipe 50 Limited		
March		
Sales (15,500 Units @ Euro 22ea)		€ 341,000
Less Cost of Goods (COG) Sold		
Beginning Inventory (1000 Units)	€ 6,360	
Add COG Manufactured (14,500 Units)	€ 87,350	
COG Available for Sale (15,500 Units)	€ 93,710	
Less Closing Inventory (0 Units)	€ 0	€ 93,710
Gross Profit		€ 247,290
Less Selling & Administration Expenses		
Fixed Selling & Administrative Expenses	€ 48,825	
Variable Selling & Administrative Expenses	€ 8,275	57,100
Net Profit for February (Using Absorption Costing)		€ 190,190

❖ The Profit Statements using Variable Costing for February and March

Profit Statement (using Costing)

Swipe 50 Limited

Sales (11,500 Units @ Euro 22ea)			€ 253,000
Less Cost of Goods (COG) Sold			
Beginning Inventory (0 Units)		€ 0	
Add COG Manufactured (12,500 Units)		€ 50,900	
COG Available for Sale (12,500 Units)		€ 50,900	
Less Closing Inventory (1,000 Units x Euro 4.072ea)		€ 4,072	€ 46,828
Variable Manufacturing Margin			**€ 206,172**
Less Variable Selling & Administration Expenses			€ 36,225
Contribution Margin			**€ 169,947**
Less Fixed Expenses			
Less Selling & Administration Expenses			
Fixed Selling & Administrative Expenses		€ 8,275	
Fixed Production Overheads		€ 28,600	€ 36,875

Profit Statement (using Costing)

Swipe 50 Limited

March

Sales (15,500 Units @ Euro 22ea)			€ 341,000
Less Cost of Goods (COG) Sold			
Beginning Inventory (0 Units)		€ 4,072	
Add COG Manufactured (12,500 Units)		€ 58,750	
Variable COG Available for Sale (12,500 Units)		€ 62,822	
Less Closing Inventory (0 Units)		€ 0	€ 62,822
Variable Manufacturing Margin			€ 278178
Less Variable Selling & Administration Expenses			€ 48,825
Contribution Margin			**€ 229,353**
Fixed Selling & Administrative Expenses		€ 8,275	
Fixed Production Overheads		€ 28,600	€ 36,875

- **Absorption Costing to that using Variable Costing**

Reconciliation Statement		
Swipe 50 Limited		
	February	March
Net Income using Absorption Costing	€ 135,360	€ 190,190
(Closing Inventory) Manufacturing Overheads carried forward	€ 2,288	
(Beginning Inventory) Add Fixed Manufacturing		€ 2,288
Net Income using Variable Costing	€ 133,072	€ 192,478

- **The different methods of calculation and their importance**

To understand absorption and variable costing, you must first know what is meant by management accounting. Cost accounting is a process for analyzing business costs and processes for preparing internal financial reports that help in making management decisions. That contribute to achieving the strategic objectives of the business.

The importance of economic records and management accounting are invaluable, as they can form effective and useful decisions for creating budgets in a business. And effective for forecasting and planning - especially for long-term planning. As accounting has proven its pivotal role in helping management to make sound financial choices based on short and long term planning.

Before comparing both methods, we must first understand the meaning and importance of fixed overheads, and this leads us to understand how to do it.

Absorption costing and variable costing differ according to most definitions, that:

Expenses are things that do not change regardless of production levels.

Fixed expenses (rent, insurance, salaries for full-time employees or equipment rental fees.

These expenses continue regardless of sales volume or production output.

The following sections show a comparison of each of the cost accounting methods, first we

We will look at absorption costing followed by a look at variable costing:

Also known as full absorption costing, which is the simpler name for absorption costing

It is a method in which a portion of fixed overhead is applied to the cost of manufacturing products. It creates the calculation on a cost per unit basis - easily done by dividing fixed costs The total number of units produced and sold during the reporting period.

The final result:

It is the unit cost per unit actually produced and sold. Absorption cost estimation method It only includes allocating fixed costs across all units produced during an accounting period. This type of cost is also known as full costing and includes addressing everyone's costs Manufacturing components such as direct materials, direct labor, variable and fixed overhead overhead in the product costs as per the generally accepted accounting principles (GAAP). This method of costing allocates the fixed overhead costs across all the units manufactured and thus helps in determining of per-unit cost. It generally results in identifying the two categories of fixed overhead costs, that includes cost of goods sold and inventory costs. The major importance of using absorption costing method is that it enables the companies to develop a suitable pricing policy that includes fixed and variable manufacturing costs. It ensures that prices are determined based on all the cost incurred in the production process. It avoids the separation of costs into fixed and variable that cannot be done in an easy and accurate manner. In addition to this, the method of accounting also helps in determining accurate profitability as all the sales and marketing expenses are recorded under the same period. However, the major drawback associated with this method is that some of the period costs does not have any future relevance and thus should not be included within the cost of product and inventory.
On the positive side, the Absorption Costing method offers the advantage when you have finished goods in inventory during the reporting period, but which were not sold. Because each product in inventory has per-unit amount assigned for fixed-expenses, each item in inventory stock has a value assigned that also includes a part of the fixed-overhead-expense. Therefore, until sold, a product is not reported as an expense until it is actually sold and removed from inventory. More popular with companies because it can improve profits, this method has a negative effect as it can artificially inflate profit amounts, as the reporting period is limited in which the full fixed overheads are not deducted if they are all, or only some manufactured

products are sold. This may be misleading to perform a profitability analysis for the reporting period.

Other than calculating absorption costing, variable costing accounts for fixed overheads on file A lump sum, not an expense per unit. under this cost method. This applies to all variable costs ((raw materials, packaging and shipping are included)).

The full cost of fixed overheads for the reporting period is added up. These expenses are subtracted from The amount of revenue as a total expense and is not added on a per-unit basis on the basis that it is sold - instead, it includes the variable cost, including those incurred in the production process. This kind of cost It involves emphasizing only variable production costs for product costing and inventory valuation. This type of pf costing unlike absorption costing incorporates all the fixed elements Overhead costs in one account and reported in one line item in the balance sheet.

The main benefit of using variable costing compared to absorption costing is that

It only manages to identify significant costs that have been incurred in developing a product or services. Also, this type of costing helps in developing the income statement by using contribution margin which leads to better information in the context of Cost Volume Profit (CVP) analysis. Absorption cost does not help with CVP analysis. Therefore, variable cost will show profits only after all expenses have been paid during the reporting period. So even if there is no sales revenue from manufactured goods During the reporting period - the company still has to account for all production expenses. To Of course, when the goods produced are finally sold out of stock, the company will report Income only without a corresponding account.

Variable cost will show profits only after all expenses have been paid during the reporting period.

❖ Three ways for Swipes 50 Ltd. By improving their accounting systems.

Management accounting provides assistance in making vital economic decisions in the areas of forecasting and planning. It is an effective control method used in comparing actual results with budgeted results. It is also a very effective tool for long-term resource planning.

In addition, it is effective for controlling resources for its ability to follow up on current results. It is a method of measuring business performance, and it is an invaluable tool for trying to ensure the success and profitability of manufacturing, especially in manufacturing.

The accounting system is used to ensure that all costs and expenses are properly accounted for. (Patankar, 2019)

In the case of Swipes 50 Limited, it has implemented at least the basics of a relatively simplified management accounting system. To be more effective for management to use in making critical and strategic decisions, more information is necessary in order to improve the performance of its accounting system.

Swipes 50 Limited's management accounting system can be improved in three important ways:

1. **Compare the actual results of budget reports with the expected results**

Budgeting is a foundation for business success and depends on forecasting to develop future plans for business.

At each stage everything is measured and evaluated.

Management accounting is an essential part of its regulatory framework, which is used to:

- Planning for expectations and surprises work.
- Develop budget plans.
- Evaluate the performance of the departments
- Assist in creating more thoughtful future planning.

Budgeting or forecasting is an integral part of effective management accounting and is necessary to achieve the objectives of the plans. And use it to achieve targeted profits by controlling the added costs and wasted costs that are incurred during the financial year and focus on the quality of work.

Allocating costs to activities that help achieve the strategic goals of the work and through it focus on building key performance indicators (KPI's) for employees. And Budgeting helps to improve the management accounting system significantly. Budgeting and forecasting help improve business profitability performance.

2. Accreditation and use of management accounting techniques

Like profit, volume cost and standard cost, marginal cost and cash flow management help Swipes 50 Limited to evaluate various aspects of private cost information and be able to integrate the resulting data with financial and cost volume profit analysis.

3. Cost based on activity:

Direct costs and all overheads apply to one product because the company produces one product according to the Swipes 50 Limited infographic. And there may be some costs that occur without purpose.

Therefore, applying the activity-based costing system, the cost will be separated for each department and only the overhead costs related to that product will be added. This will help separate the value-added and non-value-added costs from the total overhead costs. And This technique will help:

- ✓ Improve the overall profitability of the company.
- ✓ Provide information that can be used to calculate accurate profitability for each new product.

Activity based costing is a more reliable and accurate method of comparison with absorption costing; As absorption costing takes the full amount of manufacturing overhead and distributes it to all production quantities of all products taken together.

❖ The importance of management accounting functions in the manufacturer

The importance of the management accountant's role is that it covers the entire organization. (Kulkarni et al., 2018)

Its function includes collecting, recording and preparing reports and financial data. It includes monitoring and analyzing budgets and future forecasts. It includes an estimate of the cost of raw materials (labor, production, sales, marketing, sales, advertising, internal work, operational costs, etc.).

As the management accountant is the main source of information required by managers and The executives who then use it to make decisions. Therefore, the management accountant must coordinate with all the business in order to conduct a comprehensive analysis of the company's capital and availability of funds and then send reports to senior management and the board of directors.

The functions of the management accountant are related to the time to develop forecasts and budgets during a specific period. Timing is an important factor for developing all plans for the management of the company. So that they can be implemented quickly without any delay. Within the company’s general budget.

The management accountant must make sure that all the information he possesses is accurate to make the right decision

He must be knowledgeable and aware of what is going on around him, whether the political situation can affect the market, inflation, other exposures in the market, competition, labor cost, raw materials and coordination between different departments within the company.

That is why the accountant is so important in business management to maintain work and readiness in the face of all work risks.

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