COVER PAGE AND DECLARATION

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I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.

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Introduction

In the business world, cash is the lifeblood so it must be managed in the right way for daily transactions, important expansions and critical decisions in any organization. Therefore, management accounting is the process that defines, measures, analyzes and communicates financial information and reports to institutional leaders to achieve the organization's goals and objectives and ensure the continuity of the business. Also, the difference between management accounting and financial accounting is that management accounting mainly deals with internal uses and supports them, and financial accounting mainly deals with external uses. It also directs and aims to improve data collection processes, their quality, the accuracy of the information collected, the extent of its relationship and its reference to critical matters that require strategic or expansionary decisions within the organization and that have a direct impact on the company's business. It works to follow up and control fixed and variable costs, whether manufacturing or operational, and thus there is a follow-up cycle for the company's material inputs and cost performance indicators to be reflected in the company's net profits and thus sustainability and business continuity.

From here we can understand that the accounting system is very important within companies. Therefore, managers with great experience and international certificates must be appointed and they have the ability to lead, direct, and teach individuals correct and healthy management methods. From my point of view, any defect in this administrative system will certainly lead to the slow economic death of the company. Personally, I do not prefer the interference of executive managers in their work. There is no problem with expressing an opinion, especially on decisive, strategic and critical issues, but the methods, methods and methodologies used cannot decide on such matters. Other statements: I would like to also highlight the important point of monitoring and periodically controlling liquidity movements and issuing periodic reports. Who will save the company from ruin?" Planning is only half the battle. Once a plan is created, it must be implemented and monitored by managers and workers to ensure that the plan is being carried out as intended "(Hansen, D. R., & Mowen, M. M., 2007).

In Fig-1 which's shown functions of management accounting in key words we have five main factions in mine personal view think is that decision making its top critical part is it has highly impact on future plans and expansions.

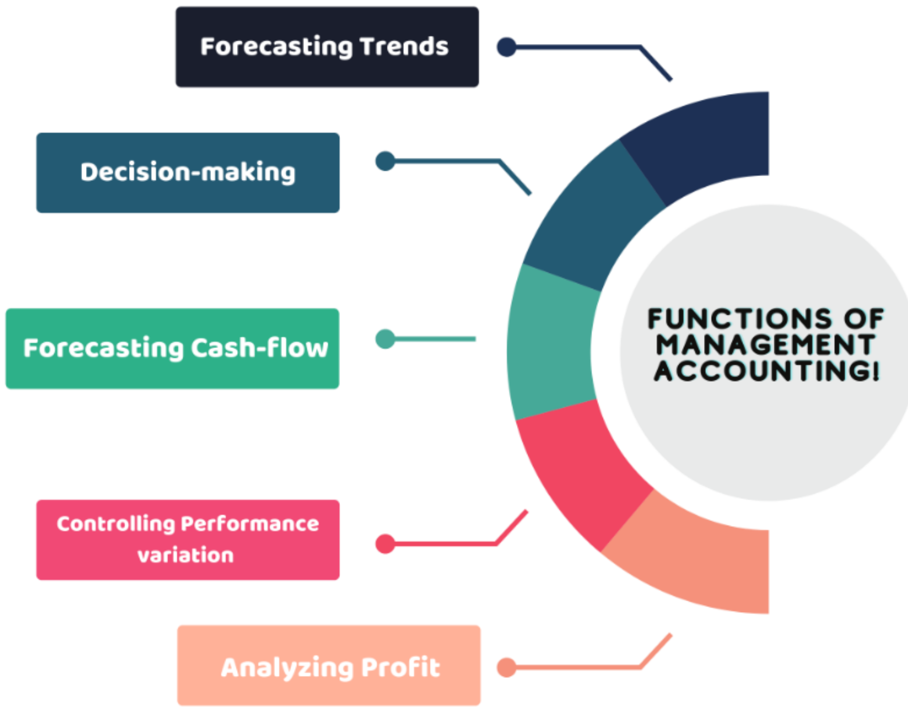

Fig -1 Accounting cycle

a. Prepare a profit statement for Swipe 50 Limited for the month of February and March using:

- Absorption cost method:

which's referring to as full costing and can give you a picture of all of the manufacturing costs that related with the production line of one unit of goods in any business. It takes the cost of direct materials and direct labor, as well as fixed and variable overhead costs. Also, it's a requirement of the Generally Accepted Accounting Principles (GAAP) as well:

Unit	Feb.	Mar.
Production	12500	14500
Sales	11500	15500
Direct Material	€ 29,000.00	€ 33,250.00
Direct Labour	€ 19,000.00	€ 22,000.00
Variable production overhead	€ 7,300.00	€ 8,500.00
Total Selling and Administrative Expenses	€ 44,500.00	€ 57,100.00

Table-1 Production costs

Now starting to prepare the operating income using the absorption costing method for:

February: first of all, let calculate Sales Revenue

- Sales revenue = 22 * 11,500

= 253,000 €

Then:

- Total manufacturing cost/unit = (direct materials/production + direct labor/production + variable production overhead/production) + (fixed production overhead/production)

Total manufacturing cost/unit = (29,000/12,500) + (19,000/12,500) + (7,300/12,500) + (28,600/12,500) = 6.712 €

- Cost of Goods Sold (COGS) = Beginning Inventory + Total Manufacturing Cost – Ending Inventory

COGS = 0 + (6.712 * 12,500) – (1000 * 6.712) = 77,188 €

Meanwhile Ending inventory = 12,500 – 11,500 = 1000

- Gross Profit = Sales revenue – COGS

Gross Profit = 253,000 – 77,188 = 175,812 €

- Operating Income = Gross profit – Total selling and Administrative Expenses

Operating Income = 175,812 – 44,500 = 131,312 €

Absorption Method	Revenues	Cost	
Sales Revenue	22 * 11,500		253,000.00 €
Total manufacturing Cost/Unit		6.71 €	
Cost of goods sold		77,188.00 €	
Gross profit			175,812.00 €
Ending Inventory		6,712.00 €	
Total selling and Administrative Expenses		44,500.00 €	
Net Income (Profit)			131,312.00 €

Table-2 Net Income (Profit) by using Absorption cost for February

Meanwhile the production is 12500 units however the sold quantity of February is 11500 units, which's lead to 1000 units that have not been sold (Ending Inventory,)

at a cost: 1000 * 6.712 = 6712 €

Now starting to prepare the operating income using the variable costing method for February method for:

For the variable expense:

Sales revenue = 22 * 11,500 = 253,000 €

Meanwhile the Total Selling and Administrative Expenses include fixed and variable expenses. so, we have to know the variable costs and the fixed costs, since the Total Selling and Administrative Expenses for the month of February changed in the month of March, and through some of the following accounts lead to:

Total Selling and Administrative Expenses for February	44,500 €
Total Selling and Administrative Expenses for March	57,100 €
The difference between February and March	57,100 – 44,500 = 12,600 €
The total sale (units) for February	11,500
The total sale (units) for March	15,500
The difference leads to	15,500 – 11,500 = 4000 unit
So, let's calculate one unit for February	12,600/4000 = 3.15

Table-3 Selling and Administrative Expenses

Variable selling and administrative expense = 3.15 * 11,500 = 36,225 €

The Fixed selling and administrative expense = 44,500 – 36,225 = 8,275 €

-Total manufacturing variable cost/unit = (direct materials + direct labor + variable production overhead)/production

-Total manufacturing variable cost/unit = (29,000 + 19,000 + 7,300)/12,500 = 4.424 €

-Cost of Goods Sold (COGS) = Beginning Inventory + Variable Manufacturing Cost – Ending Inventory + Variable selling and administrative expense

-COGS = 0 + (4.424 * 12,500) – (4.424 * 1000) + 36,225 = 87,101 €

Contribution Margin = sales revenue – COGS = 253,000 – 87,101 = 165,899

<u>For the fixed expense:</u>

-Fixed production overheads = 28,600 €

-Fixed selling and administrative expense = 8,275 €

- Total Fixed expense = 28,600 + 8,275 = 36,875 €

- Operating Income = contribution margin – total fixed expense

-Operating Income = 165,899 – 36,875 = 129,024 €

Variable Costing Approach	Costs	
Sales Revenue = 22*11,500		253,000 €
Variable Expenses		
Variable selling and administrative expenses = 3.15*11,000	36,225 €	
Total Manufacturing Variable Cost/Unit	4,424 €	
COGS		87,101 €
Contribution		165,899 €
Ending Inventory = 0		0 €
Fixed Expenses		
Total Fixed Expenses		36,875 €
Net Income (Profit)		129,024 €

Table-4 Net Income (Profit) by using Variable Costing Approach for February

So, let proceed with preparing the operating income using the absorption costing method for March:

- Sales revenue = 22 * 15,500 = 341,000 €

- Total manufacturing cost/unit = (direct materials/production + direct labor/production + variable production overhead/production) + (fixed production overhead/production)

- Total manufacturing cost/unit

= (33,250/14,500) + (22,000/14,500) + (8,500/14,500) + (28,600/14,500) = 6.369 €

- Cost of Goods Sold (COGS) = Beginning Inventory + Total Manufacturing Cost – Ending Inventory

Then the ending inventory for Feb.

= beginning inventory for Mar. COGS = 6712 + (6.369 * 14,500) – 0 = 99,062 €

As no ending inventory for March - Gross Profit = Sales revenue – COGS

Gross Profit = 341,000 – 109,773 = 241,937 €

- Operating Income = Gross profit – Total selling and Administrative Expenses

Operating Income = 231,227 – 57,100 = 184,837 €

Absorption Method	Cost	
Sales Revenue		341,000.00 €
Total manufacturing Cost/Unit	6,369.00 €	
Cost of goods sold	99,062.00 €	
Gross profit		241,937.00 €
Beginning Inventory	6,712.00 €	
Ending Inventory	0.00 €	
Total selling and Administrative Expenses	57,100.00 €	
Net Income (Profit)		184,837.00 €

Table-5 Net Income (Profit) by using Absorption cost for March

Now let's get operating income using the variable costing method for March:

<u>In terms of variable expenses</u>

- Sales revenue = 22 * 15,500 = 341,000 €

-Variable selling and administrative expense/unit = 12,600/4000 = 3.15

- So, the Variable selling and administrative expense

= 3.15 * 15,500 = 48,825 €

- The Fixed selling and administrative expense

= 57,100 – 48,825 = 8,275 €

- Total manufacturing variable cost/unit = (direct materials + direct labor + variable production overhead)/production Total manufacturing variable cost/unit

= (33,250 + 22,000 + 8,500)/14,500 = 4.396 €

- Cost of Goods Sold (COGS) = Beginning Inventory + Variable Manufacturing Cost – Ending Inventory + Variable selling and administrative expense COGS= 4424 + (4.396 * 14,500) – 0 + 48,825

= 116,991 €

-Contribution Margin = Sales Revenue – COGS

= 341,000 – 116,991 = 224,009 €

<u>In terms of Fixed expenses</u>

-Fixed production overheads = 28,600 €

-Fixed selling and administrative expense = 8,275 €

- Total Fixed expense = 28,600 + 8,275 = 36,875 €

- Operating Income = contribution margin – total fixed expense

Operating Income = 224,009 – 36,875 = 187,134 €

Variable Costing Approach	Costs	
Sales Revenue = 22*15,500		341,000 €
Variable Expenses		
Variable selling and administrative expenses = 3.15*15,000	48,525 €	
Total Manufacturing Variable Cost/Unit	4,369 €	
COGS		116,991 €
Contribution		224,009 €
Ending Inventory = 0		0 €
Fixed Expenses		
Total Fixed Expenses		36,875 €
Net Income (Profit)		187,134 €

Table-6 Net Income (Profit) by using Variable Costing Approach for March

it’s could be noted that the cost of fixed industrial expenses is 28600 meanwhile the production capacity is 20000 units per month, which's means that the company incurred additional fixed industrial expenses because the actual production is less than the production capacity, so we can calculate the variance of the production volume in February:

Production Volume Variance (Feb):

20,000 – 12,500 = 7500

28,600 / 20,000 = 1.43 €

So, the production volume variance = 1.43 * 7500 = 10,725 €

b. reconcile the profit calculated using absorption costing to that using variable costing.

	Feb	March
Operating Income from Absorption	131,312.00 €	184,837.00 €
Operating Income from Variable Costing	129,024.00 €	187,134.00 €

Table-7 Reconciling profit

Profitability reconciles of the two approaches: absorption costing and variable costing. It is certain that there is a change in the net income output, and this is mainly due to the difference in the biggening and ending inventory output, as it can be noted that the net income in February is different from March for this reason mentioned above.

The reconcile method is very effective in cases of internal and external auditing to avoid fraudulent cases and manipulation of the accounting numbers of any commercial institution.

c. Explain how each method differs from the other method and also explain the importance of each method:

With regard to critical, immediate or strategic decisions related to the sustainability of the business, the two methods of absorption and variable costing are good to rely on to make decisions, especially with regard to decisions of managers, as the absorption method is considered commonly used in most institutions, especially since it represents a reference for making strategic and long-term decisions. As for the method Variable cost is also a good method, but in making short-term decisions such as urgent purchase orders at peak times and normal times, as a result, it is an economic method used to ensure the continued profit and economic success of the company. Now let us delve into the details of the explanations of the two methods and the most important differences between them.

- For Absorption Costing its a per-unit cost of fixed overhead However, for Variable Costing a lump-sum for fixed overhead costs.
- For Absorption Costing Inventory value includes direct material, direct labor, and all overhead However, for Variable Costing Inventory value does not include fixed overhead.
- For Absorption Costing gives a view of company profitability for an accounting period due to all fixed costs are not deducted from revenues (unless all inventory is sold) However, for Variable Costing does not match expenses to revenue (with regard to inventory) in the same accounting period as it may result in a more realistic inventory value and actual profit since unsold stock doesn't absorb fixed overhead costs.
- For Absorption Costing its acceptable costing method under GAAP but its couldn't for variable costing.

Fig -2 Absorption costing & variable costing

For the importance of each method:

<u>Absorption costing</u>

"Since most firms use absorption costing (as opposed to variable costing), such overproduction results in allocation of part of current period fixed manufacturing overhead to ending inventory rather than to cost of goods sold" (Gupta, M., Pevzner, M., & Seethamraju, C. 2010). So, the absorption costing is a cost management accounting method of covering all costs associated with manufacturing a particular product during a known period and is of great importance in preparing accounting reports during that period and also external reporting to generally accepted accounting principles. It includes types of costs that enter the manufacturing period, including the direct costs associated with manufacturing the product. It also includes the cost of wages for the workers who actually manufacture the product, and the raw materials used in producing the product. It also includes all general costs, such as all utility costs, in addition to those costs that relate to and used in the production of the commodity.

a. Giving the guide and direction for getting info about direct and indirect costs.
b. Supporting the business about department wise participation in cost management.
c. Giving a view for overall cost of the manufacturing product.
d. It provides us with useful information about whether the business's resources are managed in a healthy way or randomly, as the information is analyzed and evaluated and results are derived from it.
e. Managed cost in known period as the administration, selling and distribution overheads are handling and calculated as period costs. which leads to Subtract it from financial revenues to get the profits in same know period.

Variable costing

it's a method that relies essentially on the identification and charging of variable inventory costs during the specified period and also the identification of direct materials and variable overhead costs over inventory.

a. Variable cost helps the business in the process of pricing determination since the companies are trying to price its products which can returns back the production cost of any product in less time with profitability in the market of industry.
b. The variable cost method has a very important role in planning and budget preparation processes because it may result in administrative decisions related to reducing or doubling productivity during the coming year or years.
c. In planning of profit since it helps in the process of determining break-even sales and also provides facilitation and guidance about the extent of business sales through which the business can achieve profit. It also has a role in the case of variable costs and the extent of their impact on profits and when the profit margin can be made comfortable, especially with regard to choosing areas. Sales and customers, and in this way the largest possible profit can be achieved.

d. In controlling of the costs since product-related self-costs are variable, they certainly have a significant impact on analytical and follow-up processes and therefore on product decision-making processes where variable costs are identified and classified into fixed and variable costs and provide valuable information for decision-making. Fixed costs are usually difficult to track so they may not play an important role in decision-making and under variable costs and fixed costs are treated as period costs and the margin of contribution above fixed cost is profit. In the resolution containing alternative options, an alternative with the highest margin of contribution is selected. Areas of decision where variable costs are particularly useful and relevant are pricing decisions, decision-making or procurement.

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

a. <u>Training & certification</u>

It is very important in a business to develop a development plan for all employees in all departments. It is important to follow up on the progress made. How the specialization relates to an important area such as accounting. Therefore, training accountants to ensure that they receive international certificates in the field and improve their performance is important, which will certainly be reflected. In the performance of the company in the accounting department in particular so it is important and necessary for employees in Accounting Department Training and Continuous Education on Modern Digital Accounting Systems and Keeping Up with Modern Developments and Database Systems Training on how to prepare accounting lists and sharing experiences among employees is very important in distributing the expertise available within the organization and avoiding dependence on specific persons and acting as a beehive. Development of a serial plan for the exchange of roles among themselves and building the team that to achieve the company's objectives as well as to monitor and control the team's performance indicator to monitor and evaluate.

Fig -3 The most famous certifications in accounting

b. Using the latest technology systems in business

Just try to think carefully. You will see that the world in which you live today is the same world in which you were born, but the technological change that has occurred makes you feel that you are another planet, especially in the last two decades, where the technological developments that have occurred have changed many concepts at the level of business management, the way of living, shopping, and luxury, therefore. To improve accounting systems, it is imperative to keep pace with this development and use common and reliable ones. The use of this technology is an important step towards improving the accounting system within the company. There are many applications and systems that have been developed in this field that will ensure the preservation of records and information, maintain the confidentiality of the information, reduce the time, efforts and human resources working on it, and thus improve the system as a whole and most common accounting system is ERP Software System and database systems.

c. Published stick accounting regulation

Laws and legislation are essential and important in any system, whether it is a work system, a life system, or a social system, as continuity cannot be guaranteed without these laws. Therefore, in the accounting system, it is necessary to establish the roles and responsibilities in advance. A matrix of responsibilities can be created and the modern method and methodologies that permeate the work processes can be established. As a whole, in addition to the method of monitoring and analyzing data, the method of making financial reports, their times, the accuracy of the information, and the extent of its relevance to a number of related topics, especially with regard to administrative decisions related to sales orders, pricing, accepting production orders, or expansion decisions, as well as establishing the service level agreement for each of the tasks.

e. State why managing accounting jobs are important in a manufacturing company.

In the beginning, we are talking about a commercial, investment, or economic business. Therefore, the main engine is money. Therefore, any mistake can lead to the collapse of everything. Therefore, the importance of management accounting lies after all that was mentioned above. Therefore, it is a type of accounting that has a strong and close relationship and connection, and a strong focus on providing... Accurate and relevant information about financial matters and thus provides us with data that can help us make short-term and long-term decisions, in addition to market assumptions, variations, and risks as well. Therefore, managers must form a strong and skilled team of accountants with extensive experience in the field who contribute to providing an accounting information revolution within the company. As for its importance in manufacturing companies, it is greater than in service companies, as here we have a life cycle for a manufactured item, starting with the purchase of raw materials, machines, and land, and authorizing the raw materials to materials in the state of manufacture, and materials manufactured before that, the payment accounts appear to us, and after the sale, the receiving accounts appear in addition to the remaining inventory. From the current year to the next year, as well as direct and indirect costs and service costs, all of them are matters and aspects of utmost importance that require an intelligent and strict accounting system, as long as our administrative accounting system is strong and our staff is skilled. All of these aspects complement each other, ensuring the continuation of business work and fair competition with competitors. The importance of management accounting lies in several matters, including but not limited:

- In planning of a new product or service: If we have a plan to launch a new product or service, here comes the role of accounting, through which we can verify the life cycle of the product according to the available resources, production capacity, and required and available liquidity, in addition to studying and analyzing the market and competitors, perhaps in the same field as the product to be launched.

- In making decisions :Since there is a sea of accounting information available, this certainly makes it much easier for managers to make a decision about an existing or new product, which products are more profitable and which ones are less, and as a result they can make the decision to keep or stop the product.

In addition to the many, many supports that can be provided to the organization, such as understanding the requirements of employees, forming budgets, calculating and tracking costs, following up and controlling costs, and financial reports, and in order to achieve all of this, there are techniques that can be sustained, such as those mentioned below.

Fig -4 effective Techniques in accounting management

Conclusion:

We know that any institution, whether large or small, is necessary to have an accounting staff, whether this staff is in a separate department or in a finance department. Here is a Swipe 50 limited company that has benefited from the accounting department to prepare reports for February and March, and the amount of net income, fixed and variable costs, and inventory, meaning that it can take any Decision on product quotas. we also knew that financial reports greatly assist investors in deciding whether to enter into a shareholding or whether banks will also be aware of the company's financial strength, which will facilitate obtaining loans in cases of expansion and need for loans. So, accounting work is a daily work. All data must be documented daily and issued with semi-annual or annual reports according to the company’s policy. It facilitates the work of managers, facilitates control and tracking of liquidity, and also knowledge of net income. here in managerial accounting, we are concerned with a huge number of possibilities, hypotheses, numbers, analysis and follow-up. Therefore, it is truly considered the backbone of any company, and let us not forget the growth of staff and continuous improvement is also necessary. We knew that rapid development required us to use more technology in accounting management.

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