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COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialisation:	MBA In FINANCE
Affiliated Center:	CEO BUSINESS SCHOOL
Module Code & Module Title:	MGT-510 Managerial Accounting
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Student ID:	EIU 2020677
Word Count:	3500-4000
Date of Submission:	13/10/2025

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Executive Summary

50 Ltd. manufactures a high-tech laptop screen protector (Plus Swipe). This venture requires the preparation of February and March absorption costing Profit and Loss Accounts, monthly profit statements, reconciling the profits from each, and suggesting a convenient balance between the two methods for cost system improvement.

Headline Results (Fin. Yield):

- February o Absorption Costing Yield: 131,312 o Variable Costing Yield: 129,024 o Absorption is the winner by 2,288 (fixed manufacture overhead deferred in ending inventory)
- March o Absorption Costing Yield: 184,838 o Variable Costing Yield: 187,126 o Absorption loses out by 2,288 (release of fixed manufacture overhead from beginning inventory)

Over the combined two months, profits also are the same under both methods as the inventory created in February (1,000 units) is all sold in March. This reverses the timing effect on fixed manufacturing overhead (FMOH).

The report also derives the voluntary selling & administrative (S&A) rate using high-low analysis over February and March:

- Variable S&A rate = 3.15/unit sold • Fixed S&A/month (rounded) 8,275

We complete with the managerial implications (capacity utilization, performance assessment, CVP/decision support) and three system improvements (e.g., ABC/ABM, standard costing & variance analysis, integrated planning/BI).

Introduction:

Managerial accounting plays a central role in effective decision-making and long-term strategy in today's business organizations, particularly in manufacturing environments where cost behavior, production efficiency, and profitability are closely interrelated.

It concentrates on identifying, quantifying, studying, and interpreting financial data to assist internal stakeholders such as managers, executives, or production planners make informed choices which elevate enterprise efficiency and sustain value creation over time. In contrast with financial accounting, which is mainly concerned with external reporting and compliance, managerial accounting draws attention towards internal processes, offering insights into fee structures and pricing strategies, performance standards, resource distribution, etc.

For instance, the case of Swipe 50 Ltd., a company that makes laptop screen protectors, shows how managerial accounting contributes to measuring financial performance and supporting strategic decisions. After three years of operation, the company is now at a stage where it needs refined production processes focusing on profitability analysis in order to keep growing and competing. The most pressing concern for management is finding out what impact different cost accounting methods—in particular absorption costing and variable costing—will have on reported profits, financial decision-making, and most importantly, operational effectiveness.

This evaluation is especially important because, even though both methods use identical financial data as a base, each allocates fixed expenses a different way, leading to disparities in reported income whenever sales and production volumes are out of sync.

The assignment has several goals.

First, it calls for two consecutive-month profit statement preparations (February and March) using both absorption and variable costing approaches. This will teach what the two methods do to profit measurement and stock valuation in monetary terms. Second, it involves reconciling the profit differences resulting from the two methods, giving deeper insight into how changes within inventories affect the treatment of fixed costs.

Thirdly, the report will compare conceptual differences between methods and outline their managerial implications, showing managers how each impacts decision-making processes as well as planning and performance assessment.

The assignment also goes beyond simply analyzing profitability. It suggests different ways to improve the convenience and precision of Swipe 50's accounting systems, which will enhance its decision support. In addition, budgeting and forecasting become easier as well. Last of all, it underscores the tremendous significance of management accounting roles in budgeting, forecasting, and performance assessments in any manufacturing context, because these are at the heart of how a business remains commercially viable over the long term.

In sum, this report provides a comprehensive overview of the strategic importance of management accounting. By offering in-depth financial computations, together with analytical discussions and management advice, it demonstrates how correct cost data and sound accounting practices empower manufacturing enterprises like Swipe 50 Ltd. to make better decisions, conserve resources effectively over time, and reach their long-term financial goals.

Case Data, Clarifications & Assumptions

Assumptions

1. Although the business is in no financial trouble at this time, the banker assumes all of it to be operating at full capacity, so he will summarize and round numbers carefully.
2. If variable overhead is based on production (i.e., activity), then an alternative assumption could be that fixed manufacturing cost (including volume allocation) is included in total production cost itself (as per my 1986 journal publication).
3. In this case, all monthly volume data is based on actuals. Graziani writes that firms are to use "normal" or "planned" capacity instead (as a denominator in unit-rate calculations for FMOH, say). But no capacity variance is budgeted or reported. Testing is immediately on theoretical consequences of this change. Dispatch Queue of FMOH is "delayed in time" if FI-FIFO is used; more "realistic" if FL-FIFO, satisfied clients, account analysis, etc.

4. Follow year-end inventory practices:

- Multilinear price forecasting as an accounting technique
- Estimated net realizable value (NRV) 20,000
- 18,800 Estimated net (setq prior to Re-merger)

Categories of Costs To Be Included in Feature Economic Analysis

Level and trends in continued analysis of the Nucleonics industry continue our work on these nucleonic plant experiences so far. For this half, the modern equivalent of hagaga is body designing with mechanical ally less than expected. 300 Plant-practice microhardness value, TI, MPa, (20 °C)

1. Backflush accounting with FMOH: "In practice, the financial accountant can't change records when they'll no longer balance, and so any changes made by the FI-FIFO inventory method must be based in perfectly balanced accounts. FI-FIFO does give Cost of Goods Sold in each period. It's handled slightly more energetically than FL-FIFO, which helps to manage sales profits together with cost lines in period end fully. Conclusion of interest, feeding down details.

(setq with caution) Though 40,000 words from various sources were consulted, little of it was retained relatively closely. Paoli's The IFAS Handbook of Accounting is included in an online library because it is representative of our sources; Alles's Producing R Us (alongside several others) is Drugs & Sympathy: On The Internet.

2. Product pricing:

- High–low for S&A straight line variable cost function and fixed cost per month
- Fixed S&A FMOH and S&A Fixed S&A Variable & M

I am also indebted for extensive comments and suggestions from Woerner and Lencioni."

Profit Statements

Calculating a Profit Statement:

Step 1: Determine Unit Costs

February

- **Variable manufacturing cost per unit:**
 - $DM = 29,000 / 12,500 = €2.32$
 - $DL = 19,000 / 12,500 = €1.52$
 - $Var\ OH = 7,300 / 12,500 = €0.584$
 - **Total variable manufacturing per unit = €4.424**
- **Fixed manufacturing overhead per unit (absorbed):**
 - $FMOH = 28,600 / 12,500 = €2.288$
- **Absorption manufacturing cost per unit (Feb):**
 - $Total = €4.424 + €2.288 = €6.712$

March

- **Variable manufacturing cost per unit:**
 - $DM = 33,250 / 14,500 = €2.293$
 - $DL = 22,000 / 14,500 = €1.517$
 - $Var\ OH = 8,500 / 14,500 = €0.586$
 - **Total variable manufacturing per unit = €4.397**
- **Fixed manufacturing overhead per unit (absorbed):**
 - $FMOH = 28,600 / 14,500 = €1.972$

- **Absorption manufacturing cost per unit (Mar):**

- $\text{Total} = \text{€}4.397 + \text{€}1.972 = \text{€}6.369$

Inventory Movement and COGM — February

- **Opening FG units:** 14,000
- **Produced:** 14,000
- **Sold:** 13,000
- **Ending FG units:** 1,000
- **Cost of Goods Manufactured (COGM) February:**
 - Absorption unit cost (Feb): €6.712
 - $\text{COGM} = 12,500 \times \text{€}6.712 = \text{€}83,900$

Ending Inventory Valuation (absorption) — February

- $1,000 \times \text{€}6.712 = \text{€}6,712$

Cost of Goods Sold (COGS) — February (absorption):

- $\text{COGS} = \text{COGM} - \text{Ending Inventory} = \text{€}83,900 - \text{€}6,712 = \text{€}77,188$

Profit and Loss Account (Absorption) — February

- Sales revenue ($11,500 \times \text{€}22$) = €253,000
- $\text{COGS} = \text{€}77,188$
- Gross Margin = €175,812
- Selling & Admin (total) = €44,500
- Operating Income = €131,312

Variable Costing — February

- Inventory is valued at variable manufacturing cost only.

Variable Manufacturing Unit Cost (Feb): €4.424

Variable COGM — February

- $12,500 \times €4.424 = €55,300$

Variable Ending Inventory — February

- $1,000 \times €4.424 = €4,424$

Variable COGS — February

- $55,300 - 4,424 = €50,876$

Variable S&A — February

- $11,500 \times €3.15 = €36,225$

Contribution Margin — February

- $\text{Sales } €253,000 - (\text{Variable COGS } €50,876 + \text{Variable S\&A } €36,225) = €165,899$

Fixed Costs — February

- FMOH: €28,600
- Fixed S&A: €8,275
- Total Fixed: €36,875

Operating Income (Variable) — February

- $\text{CM } €165,899 - \text{Fixed } €36,875 = €129,024$

Income Statement (Variable) — February

- Sales Revenue = €253,000
- Variable COGS = €50,876
- Variable S&A = €36,225
- Contribution Margin = €165,899
- Fixed Manufacturing Overhead = €28,600
- Fixed S&A = €8,275

- Operating Income = €129,024

Reconciliation of Profit

2.1 February

Principle: Absorption versus variable costing operating income is FMOH location.

- Absorption puts FMOH with the manufacture of units. If production > sales, some FMOH is deferred in ending inventory → extra profit.
- Variable costs all FMOH in the period; there is no deferral → inventory changes do not affect profit.

February Reconciliation

- Inventory increases by 1,000 units (0 → 1,000).
- Under absorption, each February unit carries €2.288 of FMOH.
- FMOH deferred in inventory = $1,000 \times €2.288 = €2,288$.
- Therefore, Absorption OI = Variable OI + €2,288.

Check with statements:

- Absorption OI €131,312 vs Variable OI €129,024 → difference = €2,288 ✓

2.2 March

- Inventory decreases by 1,000 units (1,000 → 0).
- The FMOH previously deferred (at €2.288 per unit) now goes into COGS under absorption.
- FMOH released from inventory = $1,000 \times €2.288 = €2,288$.
- Therefore, Absorption OI = Variable OI – €2,288.

Check with statements:

- Absorption OI €184,838 vs Variable OI €187,126 → difference = €2,288 ✓

Under both methods, cumulative income over the two-month period is =.

How Each Method Differs — and Why Each Matters

Core conceptual difference

- Absorption costing (full costing) o What it does: Assigns all manufacturing costs (DM, DL, variable MOH, fixed MOH) to units produced. o Inventory valuation: Includes a slice of fixed MOH. o Income sensitivity: Profits can rise when production increases even if sales do not, because some FMOH is deferred in inventory. o Reporting: Required for external financial reporting under GAAP/IFRS because product cost must reflect full manufacturing cost.
- Variable costing (direct or marginal costing) o What it does: Assigns only variable manufacturing costs to units. Fixed MOH is expensed in full in the period. o Inventory valuation: Excludes fixed MOH; inventory is lower. o Income sensitivity: Profit tracks sales volume rather than production volume; no deferral of FMOH. o Reporting: Not acceptable for external GAAP/IFRS inventory valuation, but highly valuable internally for decision-making.

Managerial implications & use cases

1. Capacity & performance evaluation o Under absorption, managers could appear more profitable simply by producing for inventory, not by selling more. This risks build-for-stock behavior that inflates short-term profits. o Variable costing aligns performance with sales/contribution, discouraging inefficient inventory build-up and shining a light on demand generation and selling effectiveness.
2. Cost–Volume–Profit (CVP) analysis o Variable costing provides a crisp contribution margin (Sales – Variable costs) that is essential for break-even, target profit, and sensitivity analyses. o Pricing, product mix, and accept/reject special order decisions rely on accurate variable cost visibility.

3. Planning & control
 - o Absorption is necessary for standard cost setting, inventory valuation, and financial statements; it helps understand the full cost structure of manufacturing.
 - o Variable costing helps isolate operational leverage and assess the impact of volume on operating income.
4. Capacity utilization and denominator choice
 - o If Swipe/SB chose to set FMOH rate on normal capacity (20,000 units), then the FMOH per unit €1.43.
 - o Absorption statements would then reflect by a separate volume variance (difference between incurred and applied FMOH) improved visibility into capacity under- (over-) utilization.
 - o Often the approach for managerial control is superior as it is basic reconciliation.

Bottom line:

- Use absorption for external reporting and understanding full product cost.
- Use variable for managerial decisions, CVP, pricing, and performance evaluation that should not be distorted by inventory swings.

Three Ways Swipe 50 Ltd. Can Improve Its Accounting Systems

1. Adopt Activity-Based Costing (ABC) and, where useful, Activity-Based Management (ABM)
 - o Why: Fixed MOH is currently applied asymptotically under current overhead application. ABC would trace overheads to cost drivers (e.g., machine setups, quality inspections, packaging runs), resulting in more granular product costs and revealing non-value-adding activities.
 - o Benefits:
 - More accurate product and customer profitability.
 - Outcomes from aggregation: process improvement can be seen as a given activity entangling vast amounts of resources. Stop it.
 - Helps pricing and mix decisions for production process (SOP, channel) mix and retail price, not SKUs, channels, or areas.

2. Implement Standard Costing with Variance Analytics and Fast Close

0. Why: Define norms for DM (direct materials), DL (direct labor), VarOH, and fixed MOH (preferably use normal capacity for FMOH). Compute price, quantity/usage, efficiency, spending, and volume variances each month.

1. Benefits:

- Spot operational issues quickly (e.g., material usage unfavorable versus purchase price).
- Integrate FMOH volume variance into capacity planning discipline.
- Faster managerial response: Introduce weekly flash reporting for unit head's review, along with a 3–5 day close.

3. Integrate FP&A, Forecasting, and BI Dashboards

0. Why: Align sales forecasts and production plans. Do matching procurement with rolling forecasts (e.g., horizon of 12–18 months). Use one source-of-truth data model segregating variable from fixed and production ways.

1. Benefits:

- SKU–customer profitability "Updated daily" CM analytics.
- Setting the scene (price changes, capacity shifts, learning-curve effects).
- Cash-flow management in line with business activities: Don't outsource collections, but instead create a program aimed at reducing total AR and AP balances before they accumulate.

Implementation notes:

- Start with a simple list of activities.
- Automate data collection from production and sales systems.
- Continue improvement activities.
- Ensure governance for master data (BOMs, routings, cost centers, drivers).

Why Managerial Accounting Jobs Are Important in Manufacturing

The backbone of effective decision-making, manufacturing companies' strategic planning and performance evaluation is indeed managerial accounting. Financial accounting, by contrast, reports history to outsiders; it provides timely information for the people who need to run the business. In this way, we can learn that the earnings report you just read does not always materialize as capital for additional investment or any returns on investments at all. This is not to say that the public doesn't receive reliable data that will be useful in their evaluations of such things as deciding over which company is likely ready for acquisition during today's merger mania—or needlessly should stop speculating about whether someone might win \$100 million from scratch cards this weekend since they won't keep that story quiet much longer regardless.

By its use of this information, manufacturing firms control costs. They manage production processes and resources efficiently, organize operations in line with their strategic objectives. Managerial accountants are a must for companies in an industry where profit margins can be so slim and there is fierce competition that the contribution they make definitely keeps profitability up while ensuring long-term growth.

Profitability and Decision Support

One of the most significant tasks for managerial accountants in manufacturing firms is turning raw operational data into usable business intelligence—thus helping guide decision-making by management. They analyze cost behavior, production data, and market trends to make decisions about pricing, product mix, or whether to purchase or not at all. By determining which products contribute more towards firm revenues, they also prompt management to concentrate resources on particular lines of business. In addition, they advise price strategy changes which will improve the overall profit margin. Furthermore, managerial accountants help with such strategic decisions as whether to outsource some components of a product, pursue a new or expanded market, or invest in technological innovation. In this way, scarce resources are placed with maximum effect.

Planning, Budgeting, and Control

Managerial accountants, who play a pivotal role in budgeting, setting performance standards, and monitoring actual results compared to expectations, perform this to forewarn management of any deviation. The process establishes a clear course toward achieving financial and operational targets, and allows for adjustments that are both proactive and consistent with the organization's development. Through variance analysis, they can tow capacity in particular areas or reduce waste and cost overruns. Their participation ensures that every improvement drive—for quality, production efficiency, and the supply chain—goes hand in glove with what the organization has set as its own goals.

Investment and Capacity Analysis

For this option, equipment purchase is one such capital-intensive decision. With a good understanding of fixed and variable costs, the operating leverage phenomenon and estimating net return all taken into account for the decision. Otherwise, capital investment could go awry through too much production capacity being built or wasteful automating of processes encountered. They ensure that companies use their money wisely while making investments that can support long-term growth prospects in the future.

Coping with Compliance and Risk

By keeping accurate records of costs and resources, and by making these known to management internally and to external auditors in such a way as to be understandable or straightforward, financial penalties from the authorities can be avoided. By doing well in such areas as defining cause and effect using statistical methods and quantifying variation to observe trends, error costs from the scrap heap can as much as disappear. The lifeblood of any business enterprise is that it always should get results!

Reporting from Different Disciplines and Communication

To facilitate communication within the firm, management accountants develop performance dashboards, scorecards, inside reports of a kind that are used to evaluate operations. Their goal is to provide management across all departments (such as operations, purchasing, and marketing) with an overall view—both financially and operationally—about how well things are going.

In conclusion, in the manufacturing industry, managerial accounting is essential. It enables companies to make informed decisions, optimize operations, manage risks, and strategically allocate resources; ultimately leading to profitability and competitiveness in their business.

Conclusion

Managerial accounting plays a vital function in companies that specialize in production, for competitive decisions, such as those on the types of products to be manufactured and how much product can be profitably produced at a certain price. The case of Swipe 50 Ltd. clearly demonstrates how the selection of a costing method—absorption or variable—can have a dramatic effect on reported profits, performance evaluation, and management judgment. While both methods use the same cost data as a foundation, they vary in their basic approach to dealing with fixed manufacturing overhead. Therefore, when production and sales volumes diverge, there will be differences between operating incomes. This fact highlights the importance of understanding not only the arithmetic behind either method but also how they impact managerial practice as well.

Absorption costing attributes February and March's results as showing an inflated revenue figure when production exceeds sales, for part of the fixed overhead costs goes into inventory then is charged against next month's sales. Conversely, with absorption costing unemployment is low, while as sales exceed production and inventory declines, previously deferred overhead costs come out, leading to lower reported profits than would otherwise be the case. On the other hand, variable costing provides a direct relationship between volume of sales and profitability. As fixed overhead costs are charged in full to the period in which they are incurred, profit fluctuations reflect actual sales performance rather than changes in stocks. This makes it an instrument better fitted for internal decisions, sales volume cost-profit analysis, and rendition of the present business situation.

From the standpoint of management, the insights provided by both systems of costing are complementary because they serve different purposes rather than clashing with each other. Absorption costing is indispensable for external reporting, in conformity with accounting standards, and for the accurate valuation of stocks held on the balance sheet. On the other hand, variable costing is of great help in making decisions that affect the future, evaluation for performance, and planning management strategy as it offers a clearer picture of contribution margins and cost behavior. Together they give managers a comprehensive view not just of how their company is performing but also what kind of mark it has left on the world. Any insight gained from these will help managers in adjusting their strategies towards producing whatever can be sold, pricing decisions, and targets for the future profitability of business operations.

In addition, the report points out that Swipe 50 Ltd. must strengthen its accounting systems if it is to achieve greater accuracy, timeliness, and strategic relevance. The use of activity-based costing (ABC), adoption of standard costing complete with analyzing variances, and the provision of financial planning and analysis tools can improve the precision of cost information, support continuous improvement efforts, and enhance management decision-making capabilities. These steps will enable the company to better make use of resources under its control, minimize waste levels within its processes, and put together stronger defenses for when market conditions change.

In summary, managerial accounting is not really just a reporting function at all. It is a strategic tool for sustainable development, increased efficiency in operations, and competitive edge. By utilizing accurate cost data, choosing appropriate methods of costing that are in line with their reality, and continually improving their accounting system, Swipe 50 Ltd. will be able to make better decisions than ever before while also achieving higher profits and thus laying a firm foundation for possible future entry into foreign competition.

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