



**EUROPEAN  
INTERNATIONAL  
UNIVERSITY**



### COVER PAGE AND DECLARATION

	<b>Master of Business Administration(M.B.A.)</b>
<b>Specialisation:</b>	<b>Information Technology &amp; Systems Management</b>
<b>Affiliate Center:</b>	<b>CEO Business School</b>
<b>Module Code &amp; Module Title:</b>	<b>MGT510 – MANAGERIAL ACCOUNTING</b>
<b>Student's Full Name:</b>	<b>Soudod Naseeb Abu Arar</b>
<b>Student ID:</b>	<b>EIU 2020763</b>
<b>Word Count:</b>	<b>3562</b>
<b>Date of Submission:</b>	<b>01/06/2022</b>

**I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.**

**E-SIGNATURE:**

**DATE:**

**01/06/2022**

**EIU Paris City Campus**

**Address:** 59 Rue Lamarck, 75018 Paris, France | **Tel:** +33 144 857 317 | **Mobile/WhatsApp:** +33607591197 | **Email:** [paris@eiu.ac](mailto: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](mailto:info@eiu.ac)

**MGT510**  
**MANAGERIAL ACCOUNTING**

# Contents

- Introduction:..... 3
- Prepare a profit statement for Swipe 50 Limited for the month of February and March using: a.  
Absorption costing b. Variable costing ..... 3
  - What is Absorption Costing? ..... 3
  - What is Variable Costing? ..... 4
  - Profit Statement (Using Absorption Costing) February: ..... 5
  - Profit Statement (Using Absorption Costing) March: ..... 6
  - Profit Statement (Using Variable Costing) February ..... 7
  - Profit Statement (Using Variable Costing) March ..... 8
  - Reconcile the profit calculated using absorption costing to that using variable costing..... 9
- Explain how each method differs from the other method and also explain the important of the methods... 9
  - Variable cost vs absorption cost..... 9
- What are the accounting systems?..... 13
- Here, I will present three methods that I believe will advance the accounting work of Swipes 50 Ltd: .... 14
- State why managing accounting jobs are important in a manufacturing company. .... 15
- Conclusion ..... 17
- References:..... 18

## **Introduction:**

Management accounting is a part of management that organizations use to manage financial affairs in the right and highly effective ways. Management accounting helps the organization in evaluating work and identifying strengths and weaknesses in order to be able to make the right decisions that lead to the growth and development of the company. Thus, the organization will be able through management accounting to achieve Specific goals and on time, in which a distinction is made between fixed expenses and variable expenses in production operations, and thus we have a clear difference between the profits and revenues resulting in the two methods as we will see through this report, This research presents the ways that Swipes 50 Limited will be able to develop the accounting system and take the results in more than one way to be able to better understand the state of profits and the correct ways to be followed to enhance these profits, as Swipes 50 Limited is a company that manufactures screen protectors dedicated to computer screens. (Amey,1973)

**Prepare a profit statement for Swipe 50 Limited for the month of February and March using:  
a. Absorption costing b. Variable costing**

What is Absorption Costing?

It is one of the methods of management accounting, through which the expenses related to a particular product are calculated regardless of whether it is a fixed or variable cost, so it is sometimes called "full cost", and it is required in the preparation of external reports in generally accepted accounting principles (GAAP), This method takes the fixed costs of the product even if that product has not been sold, so it increases the expense on stored products, as it is considered as an asset on the balance sheet. (Tuovila, 2022).

We note that in this method, the marginal cost is completely different, as the Absorption Costing method does not distinguish between fixed cost and variable cost, and this means that fixed costs are always associated with the product and are considered among the costs of its production. (Labro, 2019).

One of its advantages is that it takes into account all production costs and accurately tracks profit during an accounting period (Tuovila, 2022).

The absorption cost formula is a method for calculating the total costs related to production operations, including fixed expenses and variable costs related to production, manufacturing, basic business operations, and others. Its general form can be written as (Indeed, 2021):

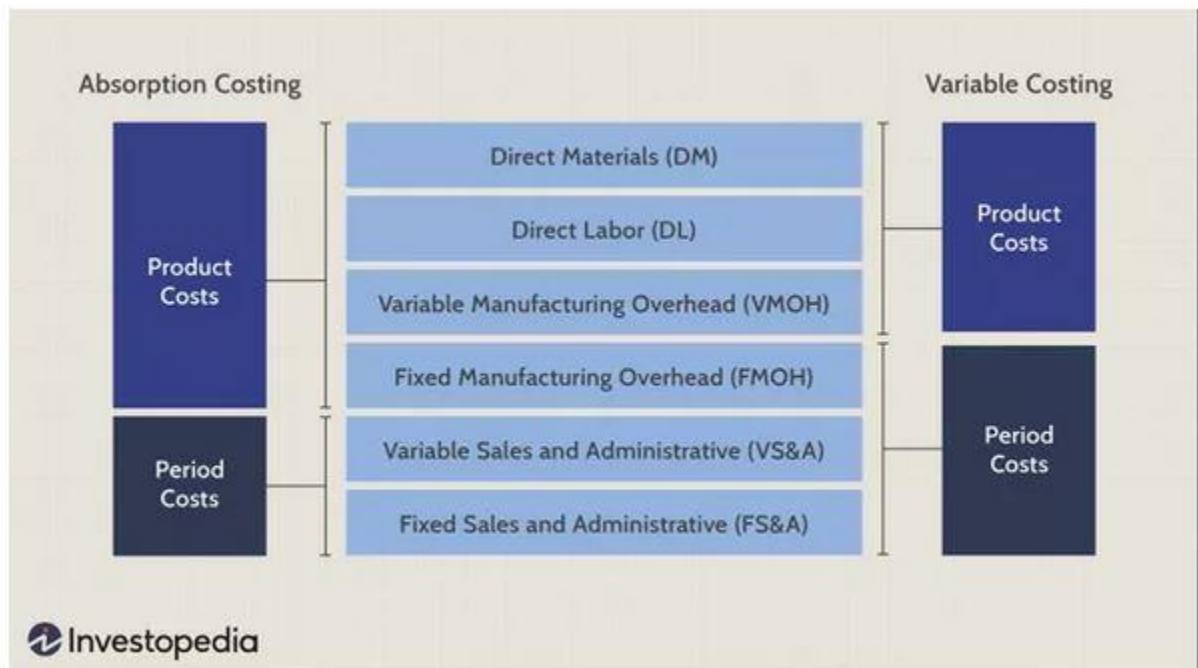
Absorption Costing = (direct materials + direct labor + variable production overhead + fixed production overhead) ÷ (number of completed units)

What is Variable Costing?

It is a method by which only variable costs are taken into account with regard to the stored goods. As for the general costs, they are borne by the goods during the production and sale process and are not charged to the stored goods, this method is used only for internal work in the organization and is not valid for use in external reports, and helps management to know some information or make certain decisions. Like knowing the lowest price for a product to sell at. (Law,2022)

Variable costing formula (Thakur, 2021):

Variable costing formula = (Direct Labor Cost + Direct Raw Material Cost + Variable Manufacturing Overhead)/Number of Units Produced.



### **Profit Statement (Using Absorption Costing) February:**

- Direct Materials = € 29,000
- Direct Labour = € 19,000
- Variable Production Overhead = € 7,300
- Fixed production overheads = €28,600
- Production (units) = 12,500
- Absorption Costing = (direct materials + direct labor + variable production overhead + fixed production overhead) ÷ (number of completed units)
- Absorption Costing = (29,000 + 19,000 + 7,300 + 28,600) / 12,500 = 6.712
- 6,712 \* Sales (units) = 6.712 \* 11,500 = 77,188

- Sales revenue = 11,500 (sales units) \* 22 (Sell price for each unit) = € 253,000
- For calculate the fixed selling and administrative expenses = Total Selling and Administrative Expenses (March) - Total Selling and Administrative Expenses (February) = 57,100 - 44,500 = **12,600**
- 14,500 (production unites of Feb.) – 12,500 (production unites of March) = **2,000 units**

**Net profit = sales revenue - total cost = 253,000 – (77,188 +44,500) = 131,312**

<b>Profit Statement (Using Absorption Costing)</b>	
	<b>February</b>
Sales (11500 * 22 Euro)	253000
<b>Less COG Sold</b>	
Beginning Inventory (0 Units)	0
<b>Add</b> COG Manufactured (12500 Units)	83900
<b>Less</b> Closing Inventory (1000 Units * 6.712 Euro)	6712
	77188
	175812
Gross Profit	
<b>Less Selling &amp; Administration Expenses</b>	44500
	131312
<b>Net Profit for February (Using Absorption Costing)</b>	
	<b>131312</b>

**Profit Statement (Using Absorption Costing) March:**

- Direct Materials = € 33,250
- Direct Labour = € 22,000
- Variable Production Overhead = € 8,500
- Fixed production overheads = €28,600
- Production (units) = 14,500
- ❖ Absorption Costing = (direct materials + direct labor + variable production overhead + fixed production overhead) ÷ (number of completed units)
- Absorption Costing = (33,250 + 22,000 + 8,500 + 28,600) / 14,500 = 6.369

- $6,369 * \text{Sales (units)} = 6.369 * 15,500 = \underline{98,720}$
- $\text{Sales revenue} = 15,500 \text{ (sales units)} * 22 \text{ (Sell price for each unit)} = \underline{\text{€ } 341,000}$
- For calculate the fixed selling and administrative expenses = Total Selling and Administrative Expenses (March) - Total Selling and Administrative Expenses (February) = 57,100 - 44,500 = **12,600**
- $14,500 \text{ (production unites of Feb.)} - 12,500 \text{ (production unites of March)} = \underline{2,000 \text{ units}}$
- $\text{Net profit} = \text{sales revenue} - \text{total cost} = 341,000 - (98,720 + 57,100) = \underline{185,180}$

<b>Profit Statement (Using Absorption Costing)</b>	
	<b>March</b>
Sales (15500 * 22 Euro)	341000
<b>Less COG Sold</b>	
Beginning Inventory (1000 Units*6.712)	6369
<b>Add COG Manufactured (14500 Units)</b>	92350
<b>Less Closing Inventory</b>	0
	98720
	242280
Gross Profit	
<b>Less Selling &amp; Administration Expenses</b>	57100
	185180

**Net Profit for March (Using Absorption Costing)**

### Profit Statement (Using Variable Costing) February

- Sales revenue = 253,000
- Direct material = 29,000
- Direct labour = 19,000
- Variable production overhead = 7,300
- $55,300/12.500 * 11.500 = \underline{50,876}$
- Variable sales and expenses  $50,876 + 6300 = \underline{57,176}$
- Contribution = 201,824



- Fixed production overheads = 28,600
- Selling and administrative expenses = 44,500- 28,600 = **73,100**
- **Net profit = 129,024**

<b>Profit Statement (Using Variable Costing)</b>		<b>February</b>	
Sales (11500 * 22 Euro)			253000
<b>Less Variable COG Sold</b>			
Beginning Inventory (0 Units)		0	
<b>Add Variable COG Manufactured (12500 Units)</b>		55300	
<b>Less Closing Inventory (1000 Units * 4.424 Euro)</b>		4424	
		50876	
			202124
<b>Less Variable &amp; Fixed Selling &amp; Administration Expenses</b>		44500	
<b>Less Fixed Production Overheads</b>		28600	
		73100	
			129024
<b>Net Profit for February (Using Variable Costing)</b>			<b>129024</b>

### **Profit Statement (Using Variable Costing) March**

- Sales revenue = 341,000
- Opening inventory valued cost = 4,424
- Direct material = 33.250
- Direct labour = 22,000
- Variable production overheads = 8,500
- Variables sales and admin. Expenses = 74,474
- Contribution = 266,526
- Fixed production overheads = 28,600
- Selling and administrative expenses = 79,400
- **net profit 187,126**

Profit Statement (Using Variable Costing)		
	March	
Sales (15500 * 22 Euro)		341000
<b>Less Variable COG Sold</b>		
Beginning Inventory (1000 Units*4.424)	4424	
<b>Add Variable COG Manufactured (14500 Units)</b>	63750	
<b>Less Closing Inventory (0 Units)</b>	0	
	68174	
		272826
<b>Less Variable &amp; Fixed Selling &amp; Administration Expenses</b>	57100	
<b>Less Fixed Production Overheads</b>	28600	
	85700	
		187126
<b>Net Profit for February (Using Variable Costing)</b>		<b>187126</b>

**Reconcile the profit calculated using absorption costing to that using variable costing**

Reconcile the profit calculated		
	February	March
<b>Profit calculated by using Absorption Costing</b>	131312	184838
<b>Less Fixed Manufacturing Overheads (Closing Inventory)</b>	2288	
<b>Add Fixed Manufacturing Overheads (Closing Inventory)</b>		2288
<b>Profit calculated by using Variable Costing</b>	129024	187126

**Explain how each method differs from the other method and also explain the important of the methods.**

### **Variable cost vs absorption cost**

When using variable cost, and when production matches sales, we have the net profit calculated by the absorption costing method, but when the production is not identical to the sale, the variable cost method gives less profitable results when there is an excess of production and more profitable results when the sale is from stock and the production is less than the sale, when variable costing is used, the gross margin reported from an income-

producing transaction is higher than under the absorption costing system, where no overhead provision is charged to the sale. Although this means that the reported gross margin is higher, it does not mean that the net profit is higher - the overhead is charged to lower expenses on the income statement instead. However, when the level of production matches sales this is happen. If production exceeds sales, absorption costing will lead to a higher level of profitability, since some of the allocated overheads will remain in the stock asset, rather than being charged to expenses in the period. The reverse situation occurs when sales exceed production. (Stapleton,2021)

We will explain a simple overview of management accounting so that we can understand its methods. Management accounting and the so-called cost accounting analyze the data and work that takes place within the company and produce internal reports that are mainly related to the company's decisions, and these reports are specific to the company and it is not possible to view It is required by those outside the company, where through management accounting the company's decisions will be highly effective in terms of improving performance and increasing profits, as well as the company will be able to predict and plan correctly for the short and long-term future, therefore, it is necessary to clarify the basic difference between variable cost and absorption costing, which is that in generally accepted accounting principles (GAAP) only reports based on the method of absorption costing are accepted and leave the option to the company in internal reports to work on absorption cost and variable cost, the point of difference between the two methods is the general cost, and we can define the general cost as the cost that is not related to the quantities of production or sales. That these costs will be paid regardless of whether there is production or sale or not, and regardless of their quantities. (Noreen, et al., 2016)

Let's start by showing the criteria and principles of each method separately, so that the comparison can be made clearly and understandably:

First, we will start by explaining the absorption cost method or the full cost as it is called in some references:

This method is characterized by the mechanism of calculating the cost of the product, where all costs related to the product and all parts related to expenses are taken, and it takes the direct and indirect costs related to the parts produced and sold during the production period, as these costs are the costs of raw materials for the product, labor, fixed overheads and all. The costs that are taken by Generally Accepted Accounting Principles (GAAP), and also include the costs of goods in stock, so this method helps the company to know the costs of the piece produced completely without errors because it takes all costs related to the piece and the full expenses, and thus determine the pure profits and their quantity and mechanisms of increase, one of the disadvantages of this method is that we may charge some expenses and costs related to the production period that are not related to the future and it is incorrect to include them on the cost of the parts that were produced or stored. (Law, 2022).

One of the advantages of the absorption costing method is that it gives the value and cost of the goods that have not been sold by the end of the reporting period and have been stored for the next period. The costs of the stored product are in the reports of the reporting period, so the company may show significant profits, but they are illusory because the expenses of the stored product were not included in the report, and the expenses of this product will appear at the point in which it is sold even if it was not produced in this period, as for the variable costs method, it deals with fixed overhead costs as a lump sum and does not divide it by the pieces produced, as these costs are

collected with production costs of raw materials, labor and others, where the full cost is added to the reports in the reporting period. (Noreen, et al., 2016).

The variable costing method calculates all costs that were incurred during the production process, and this is what distinguishes it from the absorption costing method. one of the advantages of this method is that it enables us to analyze the cost, volume and profit (CVP), while the absorption cost method will not be able to do this analysis, as for the negatives of this method, it displays the fixed costs completely and rigidly and is not transferred to the manufacturing units, which causes the appearance of lower profits in the reports due to the posting of unsold materials to the warehouse due to calculating the fixed expenses in full and as a single block even though some of the products are not sold, and the profits will not appear Only real after-sale items are in stock, from it, we see that it is not possible to use the variable cost to conduct external reports in accordance with the generally applicable accounting principles GAAP, as it does not include the allocation of fixed overheads, and this method is only to help in making decisions that improve production and performance. (Patankar, 2019).

Thus, we see that the two methods have different uses and each of them has advantages and disadvantages and reasons for using it, and from it we see that companies that own several diverse and multiple production lines, the variable cost is the best way to help develop these lines and work to improve their performance, as for the company that owns one production line Specifically, the cost of absorption will depend because of its accuracy in knowing the cost of a single product and its profits. Nevertheless, the generally applicable accounting principles GAAP accept reports from companies based exclusively on the absorption cost method. (Patankar, 2019).

## **What are the accounting systems?**

It is the organization of business and accounting records in the company so that the organization can take the right decisions and also enables the organization to monitor all points and changes that may affect the financial matters within the company (LIU & PAN, 2018).

That is, it is a set of arithmetic operations carried out by the company, which contains a set of procedures, processes, and controls that aim to record commercial operations in a combined form and present them in the form of a report can be used by management and decision-makers. On the other hand, most accounting systems rely on ready-made accounting software. Note that the accounting system covers a wide range of operations, such as the main functional areas of the company such as purchase, sales, payments, wages, financing activities, selling shares, payment, lending interest, and others. The accounting system also includes components such as accounts payable, invoices, fixed assets, inventory, accounts receivable, and payroll (Bragg, 2022)

And we see in our time companies use different accounting systems according to what their work system and method requires, and the forms of these systems are:

**Administrative Accounting:** This system enables management and officials to plan well in the future and develop good strategies to reach the company's goals, and to make decisions about work mechanisms and the extent to which business can be expanded or not. Through cost accounting, management is able to take decisions that are relevant. Directly with the product and you will be able to eliminate all forms of waste and increase the cost (Steccolini, 2019).

**Inventory accounting:** It is the mechanism that enables the company to measure the costs and value of the products in the stores or in stores, in this system, permanent inventory and organization are

carried out, which reduces the time lost during ordering. (Modugno & Di Carlo, 2019).

Industry-specific accounting: It is the accounting related to the work mechanism, product type and production processes, as companies that have distinct production and commercial operations use different accounting systems to be compatible with their accounting standards (Rao, 2019)

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

**Here, I will present three methods that I believe will advance the accounting work of Swipes 50 Ltd:**

Budget reports and measure the extent to which goals are achieved:

The management accounting system is a long-term plan that studies and analyzes data and gives expectations for the coming future and what can be implemented and achieved.

Here, the budget will learn to monitor the work on an ongoing basis and know the feasibility of the implemented plans and the gaps that must be repaired, as well as monitor the defects in each section by conducting the budget for each section separately, and thus provide observations that will be useful to end the difference that occurs between predictions and reality (Warren, et al., 2019).

1) Cloud Accounting:

It is one of the new updates on accounting knowledge and management accounting methods, as it is possible to keep reports and data on individual computers and can be accessed through servers via cloud download, and this saves time and great effort in preparing and sending financial reports, as well as preserves information security as The data on the backup servers is always vulnerable,

and this will only require a short time to prepare the plan and adjust some procedures on the personal computers such as access and updates. (Kieso, Weygandt, & Warfield, 2019).

2) Taking the costs according to the work:

We note that the company produces one product and this means that all overhead costs must be calculated and charged to the costs of this product, and we may find that some of these costs have no basic relationship to the product or that the company costs them without a clear purpose related to production, so the new system sees that the calculation of The costs are for each department separately, that is, for each production stage separately, and here the overhead costs that are not related to the product are monitored and we will also be able to reduce or eliminate them completely, and this will have a clear and direct impact on profits, and will also provide a very useful accounting base in the event The company decided to add any new products to the produced materials, we note that this method is better and more accurate than the method of calculating the cost of absorption because it allocates the stages of production and the specialization of products. It is clear that in the method of absorption costing, we have overheads divided by products, here comes the superiority of the cost-by-activity method that shows us each public expenditure and where and why it was spent. (Warren, et al., 2019)

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

We cannot say that management accounting is important, but rather it must be said that it is very important because it covers the entire organization (Kulkarni, et al., 2018)

We find that its task is to collect financial data and costs from all departments of the work and to monitor these data and analyze it well in order to be able to judge the plans followed and the mechanisms imposed at work, as well as knowing the budgets and financial status of the



departments, and this is done through the management accountant that is from His tasks are to follow up this information with the departments separately, analyze it and create reports to inform the higher management of it, and he will be responsible before the managers and heads for collecting this information to make decisions and plans on the basis of it, the management accountant needs preliminary information or inputs, which are several things, including raw materials costs, labor and manufacturing costs, maintenance costs and overhead costs. Therefore, we see the importance of having management accounting and management accountants in industrial companies because they have a significant impact on understanding the financial situation. The company and communicate this understanding to the management to make decisions related to manufacturing methods, product quality or marketing methods, opening new doors for sales, or even creating a new investment that financial studies may show its importance. (Noreen, et al., 2016)

Here we see the importance of the management accountant's task, as any error, misunderstanding or miscalculation may cause major problems for the company in the future, and scheduling this time within a specific time plan is very important, as it is required to complete these analyzes and reports within a certain time that takes into account The work situation, the position of the company and the fluctuations of the market, as the accuracy of the information in the required time is the big picture of the work of managerial accounting, as the audit of information and data in a high-quality way before it is submitted to the management for decision-making is a very important work, likewise, the management accountant must be constantly aware of everything, from the relationships with competitors, the departments of other companies, their methods of work in the market and their financial capabilities, as well as his relationship with the various departments within the company's scope, as well as the political and security situation in the geographical area

in which the company operates. Because of its great impact on the market and its fluctuations, economic inflation, depletion of resources, scarcity of materials and other things. (Kulkarni, et al., 2018)

From the above, we see the great importance of management accounting in manufacturing companies, and its benefits that will develop the work and advance the company.

## **Conclusion**

In the end, we find that the management accountant must know all the conditions that the company and its market are going through, such as the economic, social, and economic conditions, raw materials, competitors, the state of the workforce, and other experiences, and then he must coordinate between all these conditions and develop studies that achieve the best profits in These circumstances, and then preparing some studies for the changes that may occur or are expected to occur in these circumstances. In addition, the management accountants will be able to track and know the company's expenses and help in selecting and managing the company's investments and preparing budgets, and accordingly, the management accountants must have with basic skills of readiness, interest in operations, accounting skills and tax principles, and they have an expanded view of the reality of the company, and leadership and management skills.

Through the previous study, we find the great importance of management accounting and management accountants in the work of companies, organizations, or institutions, and their great role in the success, growth, and expansion of companies, increasing profits, knowing opportunities, obstacles, and weaknesses, and working on them.

## References:

1. Amey, L.R. and Egginton, D.A. (1973) *Management Accounting: A Conceptual Approach*. Longman, Harlow, Essex.
2. Bragg, S. (2022, April 17). Accounting system definition. AccountingTools. Retrieved from <https://www.accountingtools.com/articles/accounting-system>
3. Indeed. (2021, March 9). What is the absorption costing formula? Indeed Career Guide. Retrieved from <https://www.indeed.com/career-advice/career-development/absorption-costing-formula>
4. Kenton, W. (2022, March 7). What Is a Variable Cost? Investopedia. <https://www.investopedia.com/terms/v/variablecost.asp#:~:text=A%20variable%20cost%20is%20a,and%20fall%20as%20production%20decreases>.
5. Kieso, D. E., Weygandt, J. J., Warfield, T. D., Wiecek, I. M., & McConomy, B. J. (2019). *Intermediate Accounting, Volume 2*. John Wiley & Sons.
6. Kulkarni M., Mahajan S. (2018). *Management Accounting*. Pune: Nirali Prakashan.
7. Labro, E. (2019). Costing systems. *Foundations and Trends in Accounting*, 3-4.
8. Law, J. (2022). *A Dictionary of Accounting (Oxford Quick Reference)*. Oxford University Press.
9. LIU, B., & PAN, H. Q. (2018). Comparative Study of Absorption Costing and Variable Costing. *Journal of Qiqihar University (Philosophy & Social Science Edition)*, (6).
10. Modugno, G., & Di Carlo, F. (2019). Financial sustainability of higher education institutions: A challenge for the accounting system. (p. 167-186). Palgrave Macmillan, Cham.

11. Noreen, E.W., Brewer, P.C., Garrison, R.H. (2016). Managerial Accounting for Managers 4th Ed. New York City: McGraw-Hill Education.
12. Patankar Dr. B.S. (2019). Managerial Accounting. Pune: Nirali Prakashan.
13. Rao, B. R. (2019). Overview, Practices and Role of Management Accountants. The Management Accountant Journal, 54(6), 16-20.
14. Stapleton, C. (2021, April 15). Absorption Costing vs. Variable Costing: What's the Difference? Investopedia. <https://www.investopedia.com/ask/answers/052515/what-are-differences-between-absorption-costing-and-variable-costing.asp#:~:text=Absorption%20costing%2C%20also%20known%20as,excludes%20direct%2C%20fixed%20overhead%20costs>.
15. Steccolini, I. (2019). Accounting and the post-new public management: Re-considering publicness in accounting research. Accounting, Auditing & Accountability Journal, 32(1), 255-279.
16. Thakur, M. (2021). Variable costing. WallStreetMojo. Retrieved from <https://www.wallstreetmojo.com/variable-costing-formula/>
17. Tuovila, A. (2022, March 18). What is absorption costing? Investopedia. Retrieved April 3, 2022, from: <https://www.investopedia.com/terms/a/absorptioncosting.asp#:~:text=Absorption%20costing%2C%20sometimes%20called%20%E2%80%9Cfull,for%20by%20using%20this%20method>.
18. Variable costing definition. (n.d.). AccountingTools. <https://www.accountingtools.com/articles/variable-costing-definition-and->

[usage.html#:~:text=Variable%20costing%20is%20a%20methodology, costs%20are%20assigned%20to%20inventory.](#)

19. Warren, C.S., Jones, J.P., Tayler, W.B. (2019). Financial and Managerial Accounting, 5th Ed. Boston: Cengage Learning.