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<b>Student's Full Name:</b>	Basheer Mohammed Yousef Mohammed Hasan
<b>Student ID:</b>	EIU2020758
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**E-SIGNATURE:**

**DATE:**

29/Mar/2022

**EIU Paris City Campus**

Address: 59 Rue Lamareck, 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)

# Table of Contents

- 1.1 Introduction:..... 3
- 2. Prepare a profit statement for Swipe50 Limited for the month of February and March: ..... 4
- 3. Profit Reconciliation Statement calculated using Absorption Costing to that using Variable Costing: ..... 7
- Swipe 50 Limited..... 7
- 4. Explanation of each method differs from the other method and also explain the importance of each methods..... 7
- 4.1 Absorption Costing..... 9
- 4.2 Variable Costing: ..... 10
- 5. using case of each methods:..... 11
- 6. Three ways that Swipes 50 Ltd. can improve its accounting systems: ..... 11
- 7. why managing accounting jobs are important in a manufacturing company: ..... 12
- 7.1 Relevant Costs Analysis..... 13
- 7.2 Audience Targeting..... 14
- 7.3 Make or Buy Evaluations..... 14
- 7.4 Define Budgets..... 15
- 7.5 Controlling ..... 15
- 7.6 Planning ..... 15
- 7.7 Rational resource consumption ability..... 15
- 8. Conclusion ..... 16
- 9. References..... 17

# **MGT510: Managerial Accounting**

## **Module Assignment: Managerial Accounting Report**

### **1.1 Introduction:**

Early parcels of this reading material managed generally with money related accounting. Financial accounting is concerned with detailing to outside parties such as proprietors, investigators, and lenders. These outside clients once in a while have get to the data that's inside to the organization, nor do they indicate the precise data that will be displayed. Instep, they must depend on the common reports displayed by the company. Hence, the announcing structure is well characterized and standardized. The strategies of arrangement and the reports displayed are represented by rules of different standard-setting organizations. Besides, the outside clients by and large see as it were the summarized or totaled information for a substance.

In differentiate, supervisors of a particular commerce oftentimes require or crave distant more point by point data. This data must be custom-made to decision-making assignments of supervisors, and its structure gets to be more "free shaped." Such administrative accounting data tends to be centered on items, divisions, and exercises. In this setting, the administration prepare is expecting to be a wide reference to include promoting, fund, and other disciplines. Essentially communicated: administrative accounting is nearly giving information in reinforce of the interior organization forms. Numerous organizations allowed to their inner accounting units as offices of key back. This title is more intelligent of their wide run and scope of obligations.

Administrative accounting is very distinctive from money related accounting. Outside detailing rules are supplanted by inner details as to how information is to be collected and displayed. Ideally, these inside determinations are adequately coherent that they empower great financial choice making. For case, specific declaring periods may be supplanted with get to real-time data that engage fast responses to changing conditions. And, forecasted results gotten to be more basic for arranging purposes. Moreover, fetched data ought to be dispersed in a way that directors can center on (and be held responsible for!) those trade components ("fragments") beneath their locus of control.

In brief, the thoughts and strategies that can be utilized to supply accounting data in coordinate back of the "broadly characterized" part of overseeing a commerce organization.

Swipe 50 constrained fabricates a specialized screen defender for portable workstations computers. The furthermore swipe may be a screens defender that anticipate scratches on portable workstation screens. The company has been in operation for 3 a long time and presently that company has refined its generation prepare, the executives have chosen to center on the salary and fetched emerging from the exercises. Swipe 50 constrained fabricates a specialized screen defender for portable workstations computers. The furthermore swipe may be a screens defender that anticipate scratches on portable workstation screens. The company has been in operation for 3 a long time and presently that company has refined its generation prepare, the executives have chosen to center on the salary and fetched emerging from the exercises.

## 2. Prepare a profit statement for Swipe50 Limited for the month of February and March:

	February	March
Production (units)	12,500	14,500
Sales (units)	11,500	15,500
Direct Materials	€ 29,000	€ 33,250
Direct Labor	€ 19,000	€ 22,000
Variable Production Overhead	€ 7,300	€ 8,500
Total Selling and Administrative Expenses	€ 44,500	€ 57,100

a. Income statement (Absorption).

**Sales revenue** = sold units \* cost per unit.

Now we start to find the manufactory cost per product and not included with operation.

**Cost of manufactured goods** = (Direct Materials + Direct Labor + Variable Production Overhead + Fixed production overheads) / Production (units)

- COGS =
  - o Beginning inventory
  - o + Manufacturing purchase / production
  - o - Ending inventory (production unit– sales)

Gross Margin =

- Operating Cost:
  - o Total Selling and administrative expenses

Operating income =

<b>Profit Statement (Absorption costing) - February</b>		
<b>Swipe 50 Limited</b>		
Sales revenue (11,500 *22€)		253000€
Beginning inventory	0	
Manufacturing purchase / production (12500 * 6.712)	83900€	
Ending inventory (12500 –11500) =1000* 6.712	6712€	
Less :Cost of goods sold		<u>(77188€)</u>
<b>Gross Margin</b>		<b>175812€</b>
Less: Total Selling and administrative expenses.	44500€	
<b>Operating income</b>		<b>131312€</b>

<b>Profit Statement (Absorption costing) – March</b>		
<b>Swipe 50 Limited</b>		
Sales revenue (15,500*22€)		341000€
Beginning inventory (same end inv. Of February)	6712€	
Manufacturing purchase / production	92350€	
Ending inventory	0	
Less: Cost of goods sold		<u>(99,062€)</u>
<b>Gross Margin</b>		<b>241938€</b>
Less: Total Selling and administrative expenses.	57,100€	
<b>Operating income</b>		<b>184838€</b>

b. Income statement (Variable).

In variable method , it focuses on Variable costs only despite on Fixed costs, and always used for Dissection making.

Variable Cost consist of :

- Variable cost
  - Factory Overheads
  - SG&A.
- Fixed Cost:
  - Factory Overheads
  - SG&A.

**Cost of manufactured goods** = (Direct Materials + Direct Labor + Variable Production Overhead) / Production (units)

Profit Statement (Variable costing) - February		
Swipe 50 Limited		
Sales revenue (11,500 *22€)		253000€
Beginning inventory	0	
Manufacturing purchase / production (12500 * <u>4.424</u> )	55300€	
-Ending inventory(12500 –11500)=1000* <u>4.424</u>	4424€	
Less :Cost of good sold		(50876€)
Less: Variable of Selling & Administrative expenses		(36225€)
Contribution Margin		165899€
Less: Fixed Production Overheads		(28600€)
Less :Fixed Selling and administrative expenses.		(8275€)
Operating income		129024€

Profit Statement (Variable costing) – March		
Swipe 50 Limited		
Sales revenue (15,500 *22€)		341000€
Beginning inventory (same end inv. Of February)	4424€	
Manufacturing purchase / production (14500 * <u>4.396</u> )	63750€	
-Ending inventory	0	
Less: Cost of goods sold		(68174€)
Less: Variable of Selling & Administrative expenses		(48825€)
Contribution Margin		224001€
Less: Fixed Production Overheads		(28600€)
Less: Fixed Selling and administrative expenses.		(8275€)
Operating income		187126€

### 3. Profit Reconciliation Statement calculated using Absorption Costing to that using Variable Costing:

Fixed Manuf. Carried Foreword = Closing | Beginning inventory \* (fixed overhead /production)

Reconciliation Statement		
Swipe 50 Limited		
	February	March
Net Income using Absorption Costing	131312€	184838€
Less: Fixed Manuf. Carried Foreword (Closing Inv.) 1000*(28600/12500))	2288€	
Add: Fixed Manuf. Carried Foreword (Beginning Inv.) (1000*(28600/12500))		2288€
	129024	187126

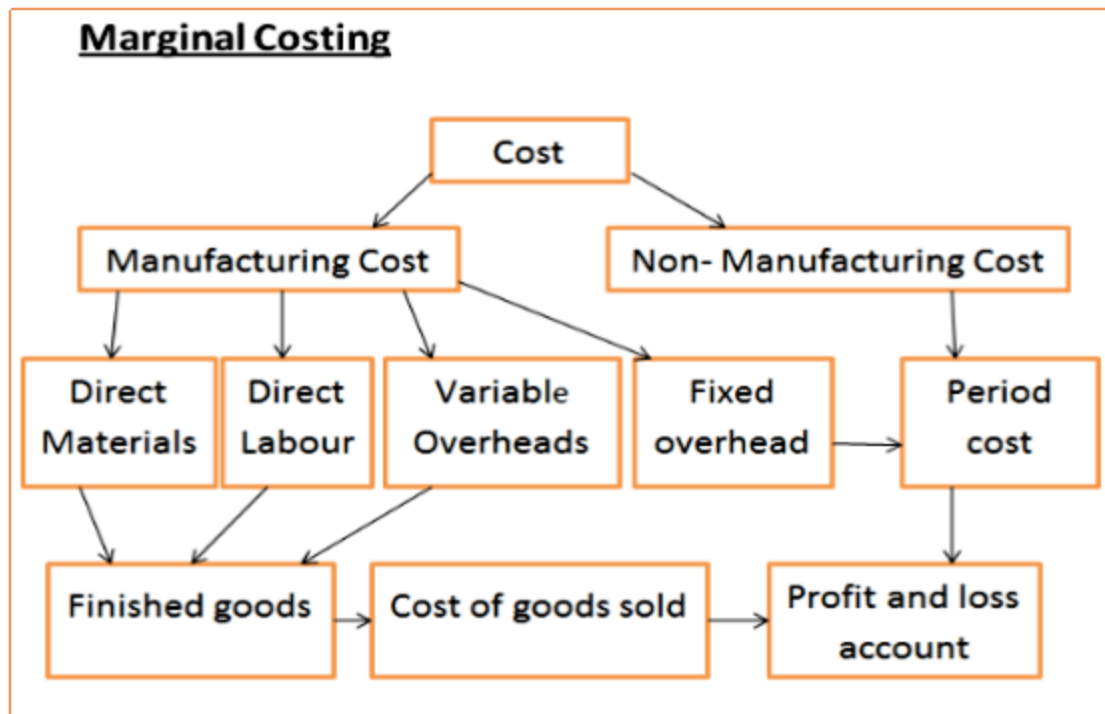
### 4. Explanation of each method differs from the other method and also explain the importance of each methods.

Absorption costing incorporates every one of the expenses related with the assembling of an item, while variable costing just incorporates the variable costs straightforwardly brought about underway yet no of the fixed expenses. The Financial Accounting Standards Board's (GAAP) is only accepting the Absorption costing.

Absorption and variable costing are not optional for public companies because their GAAP reporting requirements require them to use absorption costing. Absorption and variable costs will as it be a figure for companies that incorporate cost of deals (COGS) on their income statement.

#### IMPORTANT KEYS:

- Absorption costing incorporates all of the coordinate costs related with fabricating an item, whereas variable costing can prohibit a few coordinate settled costs.
- Absorption costing, moreover, known as full costing, involves apportioning settled overhead costs over all units created for the period, coming about in a per-unit cost.
- Variable costing incorporates all the variable coordinate costs in COGS but prohibits coordinate, settled overhead costs



A few time as of late looking at assimilation versus variable costing, it'll be imperative to urge it the differentiate between arrange and underhanded costs on the pay clarification. Coordinate costs are more regularly than not related with COGS, which impacts a company's net advantage and net advantage edge. Circuitous costs are related with the working costs of a company and will heightening influence working advantage and the working advantage edge.

A few of the direct costs related with fabricating an item incorporate compensation for laborers physically fabricating an item, the raw materials utilized in creating an item, and direct, overhead costs included in fabricating a product.

Indirect costs are not straightforwardly related with fabricating. These can incorporate:

- Research and development
- Some depreciation
- Amortization of intangibles
- Selling expenses
- Marketing expenses
- Administrative expenses
- Other expenses



Before looking at absorbed vs variable costs, it is necessary to be knowledgeable of the contrast between direct and indirect costs within the income statement. Direct costs are regularly related with COGS, which influences a company's gross profit and gross margin.

Indirect costs are related to a company's operating expenses and will greatly affect its operating results and operating profit margins.

Some of the direct costs associated with making a product include the salaries of the workers who actually make the product, the raw materials used to make the product, and the direct overhead associated with making the product.

Indirect costs are not directly related to production. This can include:

- Research and Development
- some depreciation
- Amortization of intangible assets
- cost of sales
- Marketing costs
- Management fees
- another fee

## **4.1 Absorption Costing**

Absorption cost accounting is also known as full cost accounting. Listed companies are obliged to go with Absorption cost in calculating their COGS. GAAP organization instructs the private companies to use Absorption cost accounting in creating their income statement.

The style of work of absorption costing, is to take consideration of all direct costs only which is related to COGS. For indirect expenses, which are not related with production directly, like :

- Cost of raw materials
- Hourly cost of labor
- Salaries of manufacturing workers
- Variable costs of electricity used to run a plant in manufacturing mode

This also includes all direct fixed costs such as:

- Mortgage loan for production plant
- Production site insurance
- Depreciation of machinery

Depending on the company's degree of straightforwardness, an absorption costing income statement may divide the variable direct costs and fixed direct costs into two items, or combine them to report COGS. In each case, (variable and fixed) direct costs are deducted from sales to obtain gross profit.

Using the absorption calculation method increases the cost of goods sold, which reduces the gross profit per unit of production. This means that the company's breakeven price per unit of production will be higher. It also means that customers pay a slightly higher selling price.

The effect of absorption costing depends on the company. For example, a company must make monthly mortgage payments on its manufacturing properties, whether it makes 1,000 products or no products at all. The company may see an increment in net benefit after reimbursing its contract or completing a devaluation program at a fabricating office. These are contemplations that cost accountants have to be pay near consideration to when utilizing absorption cost strategy.

Full costing is usually the standard for most companies using COGS. It is required for GAAP compliance. It will also be required by most auditors and financial players for external reporting. Depending on the type of company structure, in according to companies less than medium class they have to use full costing when they are issuing their Tax's reports.

## **4.2 Variable Costing:**

Some private companies may choose to use variable costing. With variable cost accounting, all variable direct costs are included in COGS. Fixed direct costs are distributed to working costs instead of cost of merchandise sold. In absorption and variable costs, the types of fixed direct costs remain the same:

- Mortgage for production building
- Production site insurance
- Depreciation of machinery

Variable costs result in lower breakeven costs for units utilizing COGS. This can make it more difficult to determine the ideal price for a product. Using the variable costing method, the gross profit will be slightly higher, and the gross profit margin will be slightly higher compared to the full costing method.

Keep in mind that companies using the cash method may not need to account for some of their expenses with variable costs right away, as they are not related to revenue recognition, which can be an advantage.

## **5. using case of each method:**

Most companies use the absorption calculation method when they have cost of goods sold. At many companies, managers will find that GAAP requires them to use full cost accounting and therefore find it most effective to use this method alone.

Depending on the company's business model and reporting requirements, it may make sense to use or at least calculate variable costing methods. In general, managers have to consider that when reviewing their organization's COGS costing process, there are options between absorption costing and variable costing.

If a company has high direct fixed overheads, this can have a big impact on unit price. Businesses using variable costs may be able to allocate high monthly direct fixed costs to operating expenses. In some cases, this can lead to cheaper unit prices. However, most companies will eventually need to transition to full costing, which is important in both short- and long-term decisions.

## **6. Three ways that Swipes 50 Ltd. can improve its accounting systems:**

### **6.1 Select the correct software for your business**

Not all accounting computer program gives the same instruments, highlights, and capacities. It's crucial that you just do your investigate before making an investment. The accounting system you employ must fit desires of your trade. Think approximately the highlights that your trade needs. They'll include report forms, information bringing, invoicing and VAT generation, but there is bounty of others to consider as well. It's basic to consider numerous assorted accounting program choices. After all, you don't need to be lost out.

## **6.2 Automate wherever you'll**

Automation may be an awesome time saver. It lets you limit downtime amid accounting errands, giving your workers more time and vitality to spend on other vital perspectives of your trade. Not to say, mechanization moreover greatly decreases the chance of mistakes or incorrect information. Human blunder happens. The off-base piece of information can have genuine results for your money related reports. Not to say the burden. Automation doesn't run that chance. It secures you against the domino impact of human errors.

## **6.3 Plan ahead and calculate a minimum monthly profit.**

What money related objectives do you have got for your commerce? On the off chance that you're uncertain, there are accounting frameworks that can offer assistance. The right exchange accounting framework will allow you to utilize the encounters and data to make an critical orchestrate that will be valuable for moving your company forward. It's too valuable to think short-term as well as long-term. You'll be able to evaluate and assess your ventures much more effectively. This is something businesses will frequently lose locate of. Yearly budgets are anticipated, and a current explanation is ordinarily accessible - without objectives and solid measurements to foresee what is Almost to happen although, it can be difficult to tell how well you're really doing as a company. Within the accounting division, it can be supportive to display this data as concluded from your information: "We required a least of \$\_\_\_\_\_ net edge for the final three months, on the off chance that we keep up we'll require the same." Being clear with officials around the authenticity of the objectives they are setting is one of the foremost significant assignments a accounting office head can perform.

## **7. why managing accounting jobs are important in a manufacturing company:**

An administration accounting division is one of the company's basic units, but most businesspeople don't realize it due to its "under the radar" fashion of work. accounting are insiders who make inner examinations to direct the generally commerce strategy.

By definition, their work is to plan inner money related reports, records, and accounts to help managers' decision-making handle in accomplishing brief and long-term trade objectives. In other words, their work is to disentangle complex budgetary information and turn them into significant insights.

The definition itself is beautiful much self-explanatory, but there's a parcel more covering up behind this field of work. Here we will appear some of reasons that make administration accounting so critical in decision-making.

Administration accountants work for open companies, private businesses, and government organizations. These experts may too be called taken a toll accountants, administrative accountants, mechanical accountants, private accountants, or corporate accountants. Planning information for utilize inside a company is one of the highlights that recognizes an administration accountant from other sorts of accounting occupations such as public accounting.

You will be recording and crunching numbers for inner audit to assist companies' budget and perform superior. You'll offer assistance the company select and oversee its ventures alongside other company supervisors. Administration accountants are chance supervisors, budgeters, organizers, strategists, and decision-makers. They do the work that makes a difference the company's proprietor, supervisor, or board of executives make choices.

Administration accountants regularly administer lower-level accountants who handle essential accounting assignments, such as recording pay and costs, following assess liabilities. This data is utilized to plan pay articulations, cash stream explanations, and adjust sheets, In littler firms, you will conclusion up performing these assignments yourself. An administration accountant performs investigation to estimate, budget, and degree execution and plans, at that point presents them to senior administration to help in operational choice making.

## **7.1 Relevant Costs Analysis**

The most vital work of the administration accountant is to conduct a significant fetched examination to decide the existing costs and deliver proposals for future exercises. One address stands out here: How ought to I spend my budget?

for each activity used by a company, it must be studied against all circumstances and find out the best strategy in earning benefit. This infers organization accountants have to be analyze unmistakable bargains channels, items, administrations, and advancing works out in orchestrate to find the foremost beneficial trade model.

Once the administration accounting group is done with pertinent taken a toll investigation, you'll be able make way better and more evidence-based decisions.

## **7.2 Audience Targeting**

Marketers must pay uncommon consideration to their customers. They speak to a stay of the commerce, so each company has got to make a buyer persona with all of the comparing highlights such as:

- Age and gender
- Location
- Income level
- Academic background
- Lifestyle
- Personal values

But indeed, if you characterize the normal client, there's still a few works to do.

According to masters at the accounting offer assistance online, administration accountants ought to analyze the esteem of each client bunch to distinguish the foremost profitable units: “With this uncommon sort of gathering of people focusing on, you'll contribute extra time and assets in markets that can bring you more benefit within the long-term perspective.”

## **7.3 Make or Buy Evaluations**

Item generation is regularly the foremost costly portion of the commerce, so it's vital to be sure which alternative suits wants of your company. For the most part, there are two arrangements – make items on your claim or purchase them from a third-party supplier. In this case, administration accountants are those who ought to cut the tie and tell you what to do.

They can evaluate the veritable taken a toll of each course of action and choose whether it's more appropriate to provide things inside or buy them from the producer. This could seem like a basic choice, but it's amazingly delicate and has the control to create or break your business.

## **7.4 Define Budgets**

Nothing is irregular when it comes to budgeting. On the opposite, budget-related choices must comply along with your deals history and promoting database. Usually where administration accountants step in to analyze previous exercises and characterize speculations for future activities. They make budgetary plans for each division, extend, promoting campaign, unused item, or any other undertaking.

## **7.5 Controlling**

Controlling is another vital perspective of administration accounting. To be specific, it assesses the work of all company units and makes conclusions related to the monetary execution. That way, you get to memorize the reasons for both the mishap and the advantage delivered by your workplaces. In such circumstances, it is much less demanding for senior administrators to decrease operational costs.

For event, they can cut pay rates in underperforming workplaces or reduce the number of laborers. On the other hand, they can additionally contribute to branches that illustrate to be profoundly beneficial, consequently extending the total efficiency of the trade.

## **7.6 Planning**

The final advantage of administration accounting comes from its potential to distinguish money related designs and foresee future improvements. It empowers you to remain up to date with the latest industry patterns, which implies you'll respond in an opportune way and actualize strategies that permit you to remain head and shoulders over competitors.

With the arranging power of administration accounting, you'll too make long-term trade arrangements. Doing so, you make beyond any doubt that the total group remains on the same track and works consistently towards accomplishing your commerce objectives.

## **7.7 Rational resource consumption ability**

Our planet has constrained resources which we utilize on a everyday premise. Each day there are less resources for us to spend so we have to be rationalized the utilization. In commerce, we spend

cash in arrange to obtain materials, experts and other resources fundamental for the turning of our clockwork. Administration accounting can offer assistance us decide how to spend less resources in arrange to keep our generation going without influencing the quality of our items or their marketability.

Analyzing labor, materials, and other costs can permit us to see how able to do more with less. Per illustration, you'll be able choose on the off chance that you ought to cut down the number of workers in a certain office or move a few of them to an area where more work is required. Now and then overhauling an item can lead to less fabric required for generation without the impact on the reason and the quality of the item.

## **8. Conclusion**

Management has many tools which can use to be productive and sustain a successful operation. Managerial accounting is important in the business and should be valued. The part it plays within the commerce is one that guides the plans to form beyond any doubt the commerce remains on course. With all the ethical issues and concerns, it is important to never become unethical as the ethical actions of everyone in your company will give a representation of the company. Utilizing administrative accounting strategies will offer assistance in setting the objectives and vision of the company. Cost management methods as well as costing strategies will help in finding the foremost exact and exact way of making beyond any doubt all costs are designated for. Budgeting and quality control go hand in hand in making sure the company remains on its way and proceeds to develop as a profitable company. Decision-making is often overlooked and using all these techniques and aspects of accounting will help guide you to the right decisions.



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