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Introduction: Accounting can be defined as a process through which financial information is identified, recorded, and communicated to users to Create appropriate decisions. When the financial process occurs and determines it, we then record it within the books according to the accounting principles and assumptions in order to obtain useful financial information that is communicated to the decision-makers in the company or facility.

Management accounting is a method or a system that provides the necessary information to rationalize administrative decisions. Being a system indicates that it represents a collection of scientific principles and practical analytical methods, which have the character of integration and interdependence and aim to realize the goals or objectives that are summarized in the justification of administrative decisions of all types**.** The types of analysis that are employed in the management accounting system depend on the nature of the information needs, that in turn depend on the nature of the administrative decisions taken. Accordingly, the methods of analysis that can be included under the framework of management accounting can change and evolve with the evolution of the nature of administrative decisions, the nature of the information needed for them, and the background of those in charge of making a decision

1- profit statement for the month of February and March:

a. Absorption costing: is one of the methods used for the purpose of valuing inventory or calculating product cost in a company where all expenses incurred by the company are taken into consideration i.e. it includes all direct and indirect expenses incurred by the company during the given period.

According to this method, the total cost of a product is calculated by adding variable costs, such as direct labor cost per unit, direct materials cost per unit, variable manufacturing overheads per unit, and fixed costs, such as manufacturing fixed costs per unit.

Information	February	March
Production (units)	12,500	14,500
Sales (units)	11,500	15,500
Direct Materials	€ 29,000	€ 33,250
Direct Labour	€ 19,000	€ 22,000

Variable Production Overhead	€ 7,300	€ 8,500
Total Selling and Administrative Expenses	€ 44,500	€ 57,100
Fixed production overheads	€28,600	€28,600
production capacity	20,000 units	20,000 units
Selling price	€22	€22
Inventory	0 unit	1000 units

5. variable and Fixed are included in the total administration expenses

Income statement per Absorption cost

Income Statement for February	
Sold units	11,500
Unit price	22.00
Sales Revenues	253,000
Less: COGS	
Beginning Inventory	0
+ production (variable and fixed costs) (12,500 * 5.85)	73,125
- Ending Inventory (1,000*5.85)	5,850
COGS (unadjusted)	**67,275**
Production volume variance (7,500 units * € 1.43)	**10,725**
COGS (Adjusted)	**(78,000)**
Gross profit	175,000
- Selling and Administrative Expenses Variable selling and administration expenses (3.15 * 11,500) Fixed Selling and administration expenses	 36,225 8,275
Operating Income	€ 130,500

*Note: **February production costs = Variable production cost + fixed production cost**

Variable production cost = Direct materials costs + direct labour + Variable production overhead) / produced units

= (29,000 + 19,000 + 7,300)/12,500 units = € 4.42 (Variable Manufacture cost per unit)

Fixed production cost = Fixed production overhead / Production Capacity

= 28,600/ 20,000 = € 1.43

So, the February production cost = 4.42 + 1.43 = € **5.85**

Variable Selling and administration expenses (March – February)/ (Sales for March – Sales for February)

(57,100 – 44,500) / (15,500 – 11,500) = 12,600 / 4000 = 3.15 € per unit

Ending inventory for February = Beginning inventory +production – sold units (0 + 12,500 – 11,500 = 1,000 units)

Income statement for March	
Sold units	15,500
Unit price	€ 22.00
Sales Revenues	**€ 341,000**
Less: COGS	
Beginning Inventory (1000 *5.85)	€ 5,850
+ production (variable and fixed costs) (14,500 * 5.82)	€ 84,390
- Ending Inventory (0)	€ 0
- COGS (unadjusted)	**€ 90,240**
- Production volume variance (5,500 units @ 1.43	**€ 7,865**
Adjusted COGS	98,105
Gross profit	**€ 242,895**

- Selling and Administrative Expenses Variable selling and administration expenses (3.15 * 15,500) Fixed Selling and administration expenses	 48,825 8,275
Operating Income	€ 185,795

*Note 2: **Production cost and Ending Inventory for March**

Production cost for March: Direct materials costs + direct labour + Variable production overhead) / produced units

(€ 33,250 + € 22,000 + € 8,500) / 14,500 = € 4.39

Fixed production overhead = 28,600 / 20,000 = 1.43

Total production cost per march = 5.82

Ending inventory for March = Beginning inventory +production – sold units

(1000 + 14,500 – 15,500 = 0 unit)

b. Variable costing: This is a method used in cost and managerial accounting in which it excluded the fixed manufacturing cost from the product cost per production.

Variable costs depend on the amount of production other than fixed costs, as the variable cost of production is a fixed value per unit produced, and with an increase in the volume of production, the value of variable costs will increase and vice versa, as the decrease in production decreases variable costs, and examples of variable costs are sales commissions and labor costs Direct and cost of raw materials used in the production process

The company's profits in production operations increase in the case of reducing total costs by reducing variable costs, as fixed costs are difficult to change because of the impact they may bear on production, for example:

If the company decides to move to another location in order to reduce the fixed costs it pays on the rental value, forcing it to pay additional transportation costs, and the previous location may be more suitable for a larger number of customers.

In the event that it decided to reduce the number of workers, which reduces the payment of the cost of salaries and wages, it is forced to increase the working hours and depreciate the machines even more so that it can reach the previous production quantity.

If you decide to use raw materials at a lower cost, it is difficult to find raw materials at a lower price and with the same quality, which reduces the quality of its products and reduces the strength of its demand.

The process of reducing fixed costs requires wasting more time, which may cause production delays.

Income statement per Variable costing:

Income statement for February	
Sold units	11,500
Unit price	€ 22.00
Sales Revenues	€ 253,000
Less: COGS	
Beginning Inventory	€ 0.00
+ **production cost**	
12,500 * € 4.42	€ 55,250
- Ending Inventory (1,000 * 4.42)	€ 4,420
COGS	**€ 50,830**
- Variable selling and administration cost	
3.15 per unit @ 11,500	€ 36,225
= Contribution Margin	**€ 165,945**
- Fixed manufacture cost	€ 28,600
- Fixed Admin and selling expenses	€ 8,275
Operating Income	€ 129,070

Income statement for March	
Sold units	15,500
Unit price	€ 22.00
Sales Revenues	€ 341,000
Less: COGS	
Beginning Inventory	€ 4,420.
+ **production cost**	
14,500 * € 4.39	€ 63,655
- Ending Inventory ()	€ 0
COGS	**€ 68,075**
- Variable selling and administration cost	
3.15 per unit @ 15,500	€ 48,825
= Contribution Margin	**€ 224,100**
- Fixed manufacture cost	€ 28,600
- Fixed Admin and selling expenses	€ 8,275
Operating Income	€ 187,225

Reconciliation between the two methods

For February

Operating income under Absorption – Operating Inc. under Variable = [fixed manuf. Cost of end. Inventory under absorption – F. Manuf. Of beg. Inv. Under absorption]

130,500 – 129,070 = (1000*1.43) - 0

1,430 = 1430

For March

Operating income under Absorption – Operating Inc. under Variable = [fixed manuf. Cost of end. Inventory under absorption – F. Manuf. Of beg. Inv. Under absorption]

185,795 – 187,225 = (1.43*0 - 1.43 * 1,000)

(1,430) = (1,430)

The difference between absorption and Variable method

The way that products are cost. There are different types of costs involved in the manufacturing environment. In particular, costs can be identified as variable costs and fixed costs. Absorption costing and variable costing are two different approaches to costing used by manufacturing organizations. This difference occurs as absorption costs treat all variable and fixed manufacturing costs as product costs while variable costs treat only costs that vary with output as product costs. Organizations cannot practice both approaches at the same time while the two methods, cost absorption, and variable costing, have their advantages and disadvantages.

Absorption costing, also known as full costing or conventional costing, captures fixed and variable manufacturing costs into the unit cost of a particular product. Therefore, the product cost under absorption costing consists of direct materials, direct labor, a variable manufacturing overhead, and a portion of the manufacturing overhead absorbed using an appropriate base.

Since absorption costing takes all potential costs into the calculations when calculating unit cost, some people think it is the most effective way to calculate the unit cost. This approach is simple. Moreover, under this method inventory carries a certain amount of fixed expenses, and by showing very valuable closing inventory, profits for the period will also be improved. However, this can be used as an accounting trick to show the higher profits for a given period by moving fixed manufacturing overheads from the income statement to the balance sheet as closing stock

Variable costs, also known as direct costs or marginal costs, only consider direct costs as product costs. Thus, the product cost consists of direct materials, direct labor, and variable manufacturing overhead. Fixed manufacturing costs are considered as a periodic cost similar to management and selling costs and are charged to periodic income.

Variable costing produces a clear picture of how the cost of a product changes incrementally with the change in the manufacturer's production level. However, since this method does not take into account total manufacturing costs in calculating its products, it reduces the total cost of the manufacturer

The Difference between the Absorption and Variable Cost

• Cost absorption bears all manufacturing costs in the product cost. Variable costs and costs Only direct costs (materials, labor, and variable overhead costs) are included in the product cost.

• The cost of the product in the absorption cost is higher than the cost calculated under variable costs. In variable cost, the cost of the product is less than the cost calculated under the absorption account.

The closing stock value (in the income statement and balance sheet) is higher under the absorption method. In variable costing, the closing stock value is lower compared to absorption costing.

• In absorption costing, fixed manufacturing costs are considered a unit cost and charged to the selling price. In variable costs, the fixed costs of the manufacturing industry are considered periodic costs and are deducted from the total periodic profits.

The Importance of Variable Costing Method

• The effect of changes in sales volume on operating income is more pronounced with variable costs than absorption costs.

• By not including fixed costs in calculating the cost of production, companies are able to improve performance and make more informed decisions about profitability and product mix.

• Operating income is directly related to sales levels and is not affected by changes in inventory levels due to production or sales differences and deviations.

• Skew analysis for fixed indirect industrial costs is less confusing than it is with absorption costing.

• The impact of fixed costs on operating income is clear and visible under variable costs because total fixed costs are presented as expenses in the income statement.

• It is easier to determine the “contribution” to fixed costs made by the division or product – and thus helps in deciding whether the product or division should be discontinued.

• Variable costing tends to be less confusing than absorption costing because it presents costs in the same way that they are incurred: variable costs are presented on a per unit basis and fixed costs are presented in total.

• Proponents argue that variable costing is more consistent with economic reality because fixed costs do not vary with short-run production levels.

The Importance of Absorption Costing Method

- One of the main advantages of choosing to use cost absorption is that it is GAAP compliant and required for reporting to the Internal Revenue Service (IRS). Even if a company chooses to use variable costs for internal accounting purposes, it is still to calculate the absorption costing account to file taxes and issue other formal reports.

- Absorption costs take into account all production costs, not just direct costs, nor do variable costs. Absorption costs include the firm's fixed costs of operation, such as salaries, utility rentals, and utility bills. Having a more complete picture of the cost per unit of a product line can be helpful to company management in assessing profitability and setting product prices.
- Absorption costing also provides a company with a more accurate picture of profitability than variable costing if not all of its products are sold during the same accounting period when they were manufactured. This can be especially important for a company that increases production well before the expected seasonal increase in sales.

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

1. Following the International Financial Reporting Standard IFRS
2. Having an ERP System
3. creating Procedures for all activities inside the organization

1- Following International Financial Reporting Standard IFRS:

Accounting is of great importance to international economies in general and financial markets in particular. The consequent importance of sound financial reporting standards. The global financial crisis and the resulting turmoil in global financial markets, as well as the bankruptcy of Enron and other international companies, were an opportunity to shed light on the importance of

sound accounting and reporting standards. Investors are now demanding more transparent financial reports that allow them to see the operations of companies, enabling them to determine the risks and benefits of their investments.

According to the International Financial Reporting Standards Foundation, accounting standards are a set of principles that companies follow when they are in the process of preparing and presenting their financial statements, which provides a unified way to describe the financial performance of the company. There is another definition of written policy documents issued by an expert accounting body or by the government or any other regulatory body. The work of this body includes aspects related to the measurement, recognition, and disclosure of accounting transactions in the financial statements.

First: Achieving transparency, accountability, and efficiency: it works to provide the necessary information to those in charge of management on the one hand, and help investors identify opportunities and risks, and thus improve the capital allocation process on the other hand.

Second: Consistency and compatibility: This means the application of accounting standards in institutions without regard to their nationality or geographical and political boundaries, which means unifying the foundations and rules on which accounting treatment is carried out.

Third: Comparability: Accounting standards help to compare the financial statements of companies operating in the same sector, as well as compare data between companies belonging to different sectors. Thus, rationalizing the decision-making process based on identical accounting information and making a comparison between alternatives on sound and clear grounds.

Fourth: Entering the International Financial Markets: Companies seek to expand and enter the international financial markets and list and trade their shares on an international level, taking advantage of modern means of communication. This can only be achieved if they are committed to international accounting standards.

Fifth: Facilitating the management of corporate branches abroad: The accounting standards guarantee the employment of local financial specialists who have been trained according to the same accounting principles on which the parent company operates.

Sixth: A more effective evaluation of the target entities in acquisitions: When companies seek to expand abroad, the evaluation of the target entities is more effective if these entities prepare their accounts in accordance with International Financial Reporting Standards.

statements, the increasing trend of financial globalization, and its importance to the financial markets in Achieving transparency and disclosure and assisting in attracting investments.

2- Having an ERP System

ERP is an abbreviation of the term, which means "enterprise resource management" and this system refers to the planning of enterprise management through "software" that organizations use to manage their daily business activities such as "project management, procurement, risk management, accounting and compliance, supply chain operations."

The ERP system includes "Enterprise Performance Management", a program that helps companies and organizations to prepare the necessary planning, budgets, forecasting, and preparing reports on the financial results of organizations.

The ERP system is concerned with linking a large number of business processes and working on the smooth flow of data between them, by collecting all data related to the joint transactions of any company from several sources. It is also interested in eliminating the problem of data duplication and provides data integration through one reliable source.

Today, the ERP system is of great importance in managing thousands of companies around the world of different levels and sizes in various fields, and the ERP for these organizations is an indispensable cornerstone of the management process.

3-Creating Procedures for all activities inside the organization

Procedures are predetermined ways of how to do business, and they are plans set up for employees to follow when doing repetitive work, and they translate general plans and policies into a specific method for making decisions and doing actions. The steps, the transaction, and the people that must be involved in its implementation, and every service or official document that government departments work on has a special way to do it.

What is noticed by studying the procedures, we see that it goes through a series of steps, some of which are necessary and work cannot be performed without, and some of them are not necessary and can be done. Simplifying, canceling, or amending it if necessary, the procedures can be considered as a guide for the employee, guiding them to carry out the tasks and duties necessary for performance.

When carrying out organizational building, it is necessary to clarify the procedures and methods of work that must be followed to reach the set goals, so the procedures can be defined as predetermined ways to perform business, which is a set of steps and stages that the transaction goes through in order to provide a service or achieve a specific goal.

To increase the effectiveness of the procedures, they should provide the following:

- To be comprehensive and actually linked to the desired goals.
- To be stereotyped and based on specific criteria so that it is easier to limit responsibility to the people who exercise it.
- The procedures should be linked to the regulatory steps in the organization so that it can be ensured that the actions taken do not conflict with the objectives to be achieved by completing a particular work.
- The procedures are based on the same operations in which the same work is performed each time.
- why managing accounting jobs are important in a manufacturing company.

Managing accounting is important in a manufacturing company for many reasons:

1- Planning and control:

Accounting can help the administrator in making planning decisions related to the organization. Planning involves defining organizational goals, developing strategies to achieve the goals, and identifying the resources needed. Management accounting provides managers with information that allows them to determine the effectiveness of past decisions and what decisions need to be made in the future. Some small businesses use a controller, which oversees the entire planning and control practices of the organization.

2- Cost accounting

Cost accounting is another discipline in the accounting industry that helps an administrator make important decisions. Cost accounting involves dividing costs into specific categories and then assigning costs to a specific product or service. The administrator can also determine the cost associated with certain activities and determine if the company can reduce certain costs. An administrator can use the information produced by cost accountants to determine whether a particular product is profitable. For example, an administrator may decide to cancel the manufacture of a particular product if it is determined that the revenue and profits generated by the product cannot justify the costs incurred in producing it.

3- Product cost and evaluation

Product costing deals with determining the total costs involved in producing a good or service. Costs can be divided into subcategories, such as variable, fixed, direct, or indirect costs. Cost accounting is used to measure and quantify those costs, as well as allocate overheads to each type of product the company has built.

Management accountants calculate and allocate overhead fees to assess the full expenses related to the production of a good. Overheads may be allocated based on the number of goods produced or other activity drivers related to production, such as the square feet of the facility. In conjunction with overhead costs, management accountants use direct costs to properly assess the cost of goods sold and inventory that may be in various stages of production.

4- Inventory turnover analysis

Inventory turnover is how many times a company has sold and replaced inventory during a given period of time. Calculating inventory turnover can help companies make better decisions about pricing, manufacturing, marketing, and buying new inventory. The management accountant may determine the book cost of inventory, which is the amount of expenses a corporation incurs to store unsold items. If a company is carrying an excessive amount of inventory, there may be efficiency improvements made to reduce storage costs and free up cash flow for other business purposes.

5- constraint analysis

Management accounting also includes a review of limitations within the manufacturing line or sales process. Management accountants help identify where bottlenecks occur and calculate the impact of these limitations on revenue, profits, and income. Managers can then use this information to implement changes and improve efficiencies within the production or sales process.

Conclusion: the managerial accounting is one among the important parts of accounting which take care of what's going on inside the organization, especially within the manufacturing organizations, the organizations should in general use the rules and the techniques of managerial accounting:

- Financial planning: It is a technique used to achieve corporate goals, as financial planning helps determine the financial activity of the companies, which contributes to defining long-term and short-term goals.
- Historical cost accounting helps to monitor costs and help in future planning of operations by making a comparison with standard costs.
- Budget Control: Budget control could be a technique utilized in controlling and planning costs so as to attain the specified in order to achieve the desired return on investment. Ratio analysis: Ratio analysis is the technique necessary to measure the liquidity, profitability, and efficiency of the company's management, and internal management, investors and creditors can use ratio analysis to extend efficiency
- Cash flow analysis: is employed to detect sources of money flow that contribute to a change within the amount of current assets, current liabilities, fixed assets, and loans. Statistical analysis: One of the techniques employed in data analysis uses various statistical methods such as correlation, regression, measures of dispersion, and other statistical analysis techniques.

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