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MGT510: Managerial Accounting
Module Assignment: Managerial Accounting Report

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Introduction

People are always trying to get the information that helps them make decisions in all areas of life. For example, you will see that a person who wants to reinvest some money is looking for a lot of information that will help him make the right decision in the investment process. Do you also see someone else or a group of people who have a specific project and want to know a lot about their project, such as how much our property is worth?

Important questions require specific information to help them make appropriate decisions to manage projects.

On the other hand, governments need a lot of information about the amount of money they earn and the amount of money they spend running the country.

In this life, access to appropriate information is very important, and if the information is related to financial issues, it will be more valuable, so, what is the tool that will help provide this information.

This critical role is the basic accounting work that focuses on providing appropriate financial information that assists in the economic decision-making process .

Finally, accounting is considered one of the most important functions, which every institution relies on. The purpose of accounting is to provide financial information that helps in making various management decisions.

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

50 swipes limited		
Details	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

Details UNIT EXPENSES	February	March
Direct Materials	2.32	2.29
Direct Labour	1.52	1.52
Variable Production Overhead	0.58	0.59
Total Selling and Administrative Expenses	3.56	3.94

Details	February	March
Sales	253,000	341,000
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
Total expenses	99,800	120,850
Cash profit	153,200	220,150

After that, all the expenses could be analyzed to produce one piece so it could be done in this way
 Absorption costing Reconcile the profit calculate using To be taken to the company Swipes 50 Ltd.
 Production. (El-Hamid , 2020)

Absorption Costing vs. Variable Costing: An Overview

Absorption costing and variable costing are methods used to value companies' work in progress and inventory, for accounting purposes. Absorption costing includes all the costs associated with the manufacturing of a product. Variable costing includes the variable costs directly incurred in production and none of the fixed costs. For reporting purposes, absorption costing is required under the Financial Accounting Standards Board's Generally Accepted Accounting Principles (GAAP).

Absorption vs. variable costing will only be a factor for companies that expense costs of goods sold (COGS) on their income statement.

Although any company can use both methods for different reasons, public companies are required to use absorption costing due to their GAAP accounting obligations.

KEY TAKEAWAYS

Absorption costing includes all of the direct costs associated with manufacturing a product.

Variable costing can exclude some direct fixed costs.

Absorption costing entails allocating fixed overhead costs to all units produced for an accounting period.

Variable costing includes all of the variable direct costs in COGS but excludes direct, fixed overhead costs.

Variable costing can provide a clearer picture of per-unit cost and inventory value because it excludes the fixed overhead cost.

Key takeaways:

- Absorption costing includes all of the direct costs associated with manufacturing a product.
- Variable costing can exclude some direct fixed costs.
- Absorption costing entails allocating fixed overhead costs to all units produced for an accounting period.
- Variable costing includes all of the variable direct costs in COGS but excludes direct, fixed overhead costs.
- Variable costing can provide a clearer picture of per-unit cost and inventory value because it excludes the fixed overhead cost.

Direct and Indirect Costs

Before looking at absorption versus variable costing, it's important to understand the difference between direct and indirect costs on the income statement. Direct costs are usually associated with COGS, which affects a company's gross profit and gross profit margin. Indirect costs are associated with the operating expenses of a company. These costs heavily influence operating profit and the operating profit margin.

Some of the direct costs associated with manufacturing a product include wages for workers physically manufacturing a product, the raw materials used in producing a product, and direct overhead costs involved in manufacturing a product.

Absorption Costing

Absorption costing is also known as full costing. Public companies are required to use the absorption costing method in cost accounting management for their COGS. Many private companies also use this method because it is GAAP-compliant whereas variable costing isn't.

Absorption costing involves allocating all of the direct costs associated with manufacturing a product to COGS. This includes any variable costs directly associated with manufacturing, such as:

- 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 any direct fixed costs, such as:

- The mortgage payment on a building used for manufacturing
- Insurance on a manufacturing property
- Depreciation on a manufacturing machine

Fast fact

A main advantage of absorption costing is that it is GAAP-compliant. That means that's the only method needed if it's what a company prefers to use. If a company prefers the variable costing method for management decision-making purposes, it may also be required to use the absorption costing method for reporting purposes.

Variable Costing

Some companies may choose to use the variable costing method. With variable costing, all of the variable direct costs are included in COGS. The fixed direct costs are allocated to operating expenses rather than COGS.¹ The types of fixed direct costs are the same whether a company uses absorption or variable costing:

- A mortgage payment on a building used for manufacturing
- Insurance on a manufacturing property
- Depreciation on a manufacturing machine

Variable costing will result in a lower breakeven price per unit using COGS. This can make it somewhat more difficult to determine the ideal pricing for a product.

Variable costing results in gross profit that will be slightly higher. In turn, those results in a slightly higher gross profit margin compared to absorption costing.

Keep in mind; companies using the cash method may not need to recognize some of their expenses as immediately with variable costing since they are not tied to revenue recognition. This can be an advantage.

Fast fact

the reasons of variable costing isn't allowed for external reporting is because it doesn't follow the GAAP matching principle. It fails to recognize certain inventory costs in the same period in which revenue is generated by the expenses, like fixed overhead.

Key Differences

Both costing methods can be used by management to make manufacturing decisions. For internal accounting purposes, both can also be used to value work in progress and finished inventory. The overall difference between absorption costing and variable costing concerns how each accounts for fixed manufacturing overhead costs.

#	Absorption Costing	Variable Costing
Method	Applies all direct costs, fixed overhead, and variable manufacturing overhead to the cost of a product	Only variable costs are applied to the cost of a product; fixed overhead costs are expensed in the period in which they occur
Use	Calculates a per-unit cost of fixed overhead	Determines a lump-sum for fixed overhead costs
Inventory	Inventory value includes direct material, direct labor, and all overhead	Inventory value does not include fixed overhead
Accounting	Can cloud picture of company profitability for an accounting period because all fixed costs are not deducted from revenues (unless all inventory is sold)	Doesn't match expenses to revenue (with regard to inventory) in the same accounting period; may result in a more realistic inventory value and actual profit since unsold stock doesn't absorb fixed overhead costs
Reporting	Acceptable costing method under GAAP	Not an acceptable costing method under GAAP

Absorption Costing vs. Variable Costing Example

Let's say that ABC Company manufactures and sells 20,000 units of its product yearly. A single product includes these costs:

- Direct materials: \$3 per unit
- Direct labor: \$5 per unit
- Variable manufacturing overhead: \$2 per unit
- Fixed manufacturing overhead: \$35,000 per year, which computes to a \$1.75 per unit cost (\$35,000/20,000 annual units)

Under the absorption costing method, the per unit cost of product would be:

$$\$3 + \$5 + \$2 + \$1.75 = \$11.75$$

Under the variable costing method, the per unit cost of product would be:

$$\$3 + \$5 + \$2 = \$10$$

Is Variable Costing More Useful Than Absorption Costing?

It can be, especially for management decision-making concerning break-even analysis to derive the number of product units needed to be sold to reach profitability.¹

What Are the Advantages of Variable Costing?

Unlike absorption costing, variable costing doesn't add fixed overhead costs into the price of a product and therefore can give a clearer picture of costs. By assigning these fixed costs to cost of production as absorption costing does, they're hidden in inventory and don't appear on the income statement.

What Are the Disadvantages of Variable Costing?

While it's a valuable management tool, it isn't GAAP-compliant and can't be used for external reporting by public companies. Therefore, if a company uses variable costing, it may also have to use absorption costing (which is GAAP-compliant).

If a company has high direct, fixed overhead costs it can make a big impact on the per unit price. Companies that use variable costing may be able to allocate high monthly direct, fixed costs to operating expenses. This could result in a more reasonable per unit price in some cases. However, most companies may need to transition to absorption costing at some point, which can be important to factor into short-term and long-term decision making.

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Put your trading skills to the test with our FREE Stock Simulator. Compete with thousands of Investopedia traders and trade your way to the top! Submit trades in a virtual environment before you start risking your own money. Practice trading strategies so that when you're ready to enter the real market, you've had the practice you need.

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

Note the defect in the trial balance.

The audit balance is a report of financial management only of the first class to ensure that accounting operations are properly recorded and that accounts are carried over as they should be but not accurately enough.

As there are several things that must be taken into account and among them

First: The balance of the balance is not sufficient evidence that the calculations are completely correct as it is possible to record a type of petty cash for example as an operating expense it will not affect the balance as the balances debit are ostensibly correct but the guidance in terms of the quality of expenses is incorrect and so on in addition to several other things such as these cases . . .

Second: The nature of the accounts and their appearance are reviewed according to their nature in the audit balance as you know that the assets by nature are debited, liabilities and capital, equity and allocations by nature are credited, if the account appears contrary to its nature, the reason for this is reviewed and the registration and posting are reviewed, for example, the account of the receivables of workers by its nature is a debit account and this account cannot be a creditor if the account in the balance is credited, this indicates a significant imbalance in registration and posting as well as the account of suppliers or the account of revenues These accounts are inherently creditor that do not have to appear on the debtor's side and so on in terms of the nature of the accounts

Third: Review and analysis of balances and here comes an important technical role in terms of looking at each account and analyzing it well, for example

The numbers must be logical, for example, it is not possible to accept that a company whose secondary sales volume does not exceed one million riyals and finds its petty cash expenses exceeding five hundred thousand riyals, or for example the balance of purchases in the amount of one million riyals and the inventory of the last period and sales, for example, are not equal to two hundred thousand riyals

Depreciation calculations should also be considered in comparison with the accounts of existing assets and so on.

Fourth: It should be noted that only according to the continuous inventory appears the calculation of the last period in the trial balance and does not appear to him a balance if the company operates a periodic inventory system

Trial balance

The Trial Balance is simply defined as a set of financial reports and through these reports presents a list of all the accounts of the institution during a certain financial period that the institutions carry out periodically and usually at (the end of the year) and each ledger is divided into two columns, namely the creditor and the debtor to clarify the balances of these accounts, it is considered the third step in the preparation of the documentary cycle. The main role and general purpose of the trial balance is to clarify the errors that cause incorrect totals through the accountants of the institution and to ensure that the entries in the general ledger of the institution are correct correctly.

Components of the trial balance:-

Accounts – Creditor – Debtor

Accounts: In the Trial Balance report, the accounts include all the financial details of the company from payment papers, revenues, expenses, fixed assets, operating expenses, general expenses, capital, inventory and customers.

Creditor Section: It is the section in which the creditor refers to the said person or account paying a certain amount of money for a service or product.

Debtor Section: It is the section that requires the buyer to pay its value to the seller in exchange for services or products provided by the seller.

Types of trial balance:

They are of two types: a balance of review in totals - a balance of review in balances

Summary balance of totals: It is the appearance of the total accounts receivable and payable for each account from the general ledger.

Balance of audit of balances: The appearance of balances of accounts of the debtor and creditor only.

The importance of the trial balance:

It is used as a main tool for the control and verification of the registration accounting system, where the group of receivable balances must be identical with the creditor, in addition to being considered a necessary step in order to prepare the final accounts, statement of financial position and income statement.

The trial balance mainly helps in preparing reports, making budget decisions and detecting errors.

Note: The balance of the trial balance does not mean that the books of accounts are free of errors and the correctness of the recording and analysis of financial operations can indicate the correctness of the posting process only, so all initial operations must be ascertained.

To detect errors in the event of an imbalance in the trial balance report, you can follow these steps:

- Verify the collection of both sides of the report audit to ensure the correctness of the process.
- Review the transfer of totals or transfer of account balances from the ledger to the trial balance while re-placing them on the right side (from the stages of the accounting documentary cycle).
- Review the posting from journal to ledger to make sure there are no errors (from the stages of the accounting documentary cycle).
- Monitor the collection of the debtor and creditor within the journal to ensure that there are no collection errors in the central entry.

For added flexibility and detail, an accounting program can be used that gives you the ability to combine balance audit balances and totals, and can expand and display a monthly trial balance report, or a cost center audit balance.

Methods of accounting treatment of cash in the bank

Accounting treatment of cash in the bank:

Bank account: It is one of the asset accounts that is located on the debit side, and in some cases of increase or deposit is registered in the creditor party, as well as companies open accounts with the bank; through which they can deposit and withdraw funds to and from the bank account, as well as withdrawal by bank checks issued and received. The following are the restrictions for bank withdrawals:

Bank Statement Concept:

Institutions from time to time receive a statement of account from the bank, in which it shows all the financial transactions and movements that have taken place for that account, from depositing and withdrawing funds within a certain period of time. The actual balance in the account is also indicated on a certain date, where the institution works by matching and checking the statement coming from the bank with the actual balance recorded in the books of the institution, and then the bank settlement entries for the bank account are prepared.

How to settle bank restrictions:

The balance of the bank contained in the statements often does not match the actual balance of the bank shown in the general ledger; due to the presence of some financial operations that were recorded by the bank and not recorded in the accounting books, and vice versa, perhaps some operations were recorded in the accounting books and were not recorded in the bank; these differences in turn lead to the difference in the book balance coming from the bank in the bank statement, which leads to the need to prepare bank settlement entries. These restrictions include:

- 1- Financial transactions recorded in the statement of account received from the bank and not recorded in the bank account shown in the books of the establishment:
- 2- Financial transactions recorded in the books of the institution and not recorded in the statement of account received from the bank:
- 3- The existence of errors in the recording of financial operations in the books of the institution or in the statement received from the bank:

How to prepare a bank settlement note:

The Foundation prepares a statement called the Bank Settlement Memorandum to match the balance that is present and recorded in the bank statement with the balance in the books and accounting records, as well as to reach the adjusted balance, and in order for the institution to be able to prepare the settlement memorandum it needs a statement from the bank during a monthly or annual period or as requested by the institution to carry out the audit and compliance with the bank accounts registered in the books. Some of the most important methods used for matching include:

- 1- The first method, the balance recorded in the bank statement is started, and then all the accounting financial transactions that occurred in the books of the institution and were not recorded in the bank are included in order to reach the bank's adjusted balance.
- 2- The second method: The bank balance that appears and is recorded in the books of the institution is started, and then work to include all the accounting financial transactions that were recorded in the bank statements and were not recorded in the institutional books to reach the adjusted book balance.

State why managing accounting jobs are important in a manufacturing company

What's the manager's accounting?

A manager's accounting is a type of accounting different from a financial accounting or book setting. It's closely related, but it's more about providing financial information that helps the manager's decision.

This means that the manager's accounting passes day by day during financial time, Another key role of the director's accounting is to help managers decide the price of products by providing all the information about costs and market factors and profits In the same way, management accountants can help determine the life cycle of current products and the ability to live in new products.

Basically, accountants provide the principal understanding manager who helps the company's management team make many of their decisions They also support decision-making within a company by providing financial information and statistics. (Maged ,2020)

Assets

The Assets symmetry consists of all the economic sources that have been established and are always used in the implementation of their activities.

Ken's resources are in the form of long-term products such as land, buildings, machines, and materials. If it was raw.

In this case, it is called the stable senators in the form of cash money as it is in the bank fund or in a wealth that is done to the bank The debt has gone to be changed in a short period of time and the debts have been worth the debt stipend that the institution's debt sits on its shoulders More people are in return for offering services or selling goods on the account on the basis of differentiation between the stable and exchanged systems, which is the civil level.

or suitable for changing to Solei in a short period of time, It should be noted that fixed assets are used for long-term project activities, but not for resale

Expense

It is the cost of goods and services used in the implementation of the activities carried out by the organization to earn revenue, for example, rent, salaries, electricity, equipment, and other expenses.

Sales

Sales Concept

The term "sales" may be so familiar that it's easy to assume that you know exactly what it means in entrepreneurship and business activities, however, there is a basic definition of it that is deeper and more accurate than is commonly known.

The concept of sales refers to being the activity or process of selling products and/or services, and may be referred to in other terms such as sales revenue or sales volume, this simple definition, may eventually lead to the adoption of business-focused strategies instead of customer-focused strategies, sales is not about trying to convince potential customers or developing more convincing methods to make people spend more, but about helping potential customers get what they really need with a service or product It meets a need and solves a problem, by providing a cost-effective and timely solution, which naturally equates to a win-win situation.

Through sales, companies get revenue, make profits, and it all depends on several factors, for example: expense management, it should be noted that it is possible to sell physical products, services or symbolic things (such as a football player), the field of sales is very wide, and in fact, a vision or opinion can be sold, or consulted by choosing one project over another, and these are just a few examples among many examples.

Revenue

They are the amount of money received from others in exchange for selling goods or providing services and, depending on the type of activity, for example, proceeds from sales and proceeds from services increase property rights

Net income and net loss

After the cost of sales comes the total profit or loss can be determined by comparing the summary of sales with the cost of sales. If the summary value of sales exceeds the cost, the result is a profit.

However, if the summary value of the goods sold is less than the cost, then the result will be a loss.

The total profit and loss is determined by this equation

Summary of Sales - Cost of Sales = Total Profit

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