COVER PAGE AND DECLARATION

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Introduction

Accounting for costs allows for a clear distinction to be made between fixed and variable expenditures, which is the basis for the vast majority of decisions made by managers about the pricing of products and the quantity of output. Unless this separation is achieved, the person responsible for making judgments won't be able to evaluate how their decisions will affect the company's profitability. When it comes to assigning overhead, this distinction is extremely crucial. A system is said to have complete absorption when it takes into account both the fixed and variable production costs when calculating the cost of the finished product. Full absorption systems include, among other things, both the traditional and the activity-based costing (ABC) systems. The mix of fixed and variable overhead costs produces product costs that are difficult to use for decision making as a result of the combination of the two types of costs. This article uses a numerical example to examine and contrast various different alternative ways to overhead allocation. These approaches are described in further detail later in the article. It places an emphasis on variable activity-based costing, also known as VABC, which use regression analysis in order to estimate the fixed and variable elements of each cost pool in order to achieve the highest possible level of efficiency.

Profitstatement forSwipe50

Absorption costing

profit statement - using Abc costing			
		February	
Sales		253000	11500 @22
Less : COGS			
Beg inventory	0		
Add COG manfactured	83900		
COG Avalabile for sale	83900		
Less closing inventory	6712	77188	(83900/125000)*1000 1000*6.712
Gross profit		175812	
Less selling Adm			
Fixed selling	8275		
Variable selling	36225	44500	(57100-44500/4000)*11500
Net profit for Feb		131312	
profit statement - using Abc costing			
		March	
Sales		341000	15500 @22
Less :COGS			
Beg inventory	6712		
Add COG manfactured - 15500 unit	92350		
COG Avalabile for sale	99062		
Less closing inventory	0	99062	1000*6.712
Gross profit		241938	

Less selling Adm			
Fixed selling	8275		
Variable selling	48825	57100	
Net profit for Feb		184838	

Variable costing

profit statement - using variable costing			
		February	
Sales		253000	11500 @22
Less COGS			
Beg inventory	0		
Add COG manfactured - 12500 unit	55300		
COG Avalabile for sale	55300		
Less closing inventory	4424	50876	1000*4.424
Variable manfacturing margin		202124	
Less variable selling		36225	
CM		165899	
Less fixed exp			
Fixed selling	8275		
Variable selling	28600	36875	
Net profit for Feb		129024	
profit statement - using variable costing			
		March	
Sales		341000	15500 @22
Less COGS			
Beg inventory	4424		
Add COG manfactured - 15500 unit	63750		

COG Avalabile for sale	68174		
Less closing inventory	0	68174	
Variable manfacturing margin		272826	
Less variable selling		48825	
CM		224001	
Less fixed exp			
Fixed selling	8275		
Variable selling	28600	36875	
Net profit for Feb		187126	

Differs & importance of the each methods.

Activity-based costing

Activity-based costing takes into consideration all of the costs connected with a product, including indirect costs, when computing the cost of the product itself. It is a process that involves tracking the use of resources and determining the value of the products in their final form. When using activity-based costing, the objective is to designate particular resources for particular things. It highlights in detail the actions that contribute to the rise in production costs, so empowering team leaders to make decisions regarding pricing and manufacturing strategies that are better informed. As was previously noted, the fact that activity-based costing takes into account non-manufacturing expenditures as well as indirect costs, which you may not have given much thought to in the past, might assist in raising profit margins. When it comes to making crucial choices, it can be to the benefit of those in charge of a company to have more accurate information on profit margins. Additionally, it can help in the reduction or transfer of production costs, which in turn enables management to raise their profit margins even further by employing efficient pricing techniques.

When managers use activity-based costing, they are able to swiftly identify items that have little or no value because of its accuracy. This information is the basis for the choice that they made to remove products from inventory and reallocate manufacturing resources to ones that would generate a higher profit. Additionally, it makes it simpler to recognize items that have the potential

to be wasteful in terms of the resources they need in order to function properly. Some things could not only have a low market worth, but they might also be a waste of resources that could be used for something more productive.

Disadvantages of using activity-based costing

When deciding which approach is best, it is important to take into account the potential shortcomings of activity-based costing (ABC). The following are some possible downsides that should be taken into consideration

In certain circumstances, it requires a longer amount of time.

The process of activity-based costing can take significantly more time than the more standard approaches to costing. The members of the team are responsible for manually evaluating the costs associated with each product rather than computing overall costs and distributing them equitably among all goods. They are required to go through the procedure of classifying the products and separating them into the appropriate categories.

It is possible that organizations will determine that it is important to delegate this particular activity to a team, but they also have the option of outsourcing it to another business. Because it typically requires the engagement of a group of employees with management responsibilities, this approach has the potential to be more efficient. The fact that the activity-based costing team is typically already familiar with the programs in issue is one more advantage of outsourcing this process to a team that is committed to the practice of activity-based costing. Other advantages include:

There is a possibility that additional resources will be needed in order to obtain reliable data.

Variable costing

Variable costing, also known as direct costing, is a costing method that includes only variable manufacturing costs — direct materials, direct labour, and variable manufacturing overhead — in the cost of a unit of product. It is also known as direct costing. Variable costing is also known as direct costing in some circles.

When using variable costing, only those costs of production that vary directly with output are treated as product costs, and all other costs are ignored. The cost of fixed manufacturing overhead is not included in the cost of the product under this method.

rather than as a one-time expense, it is treated as a period cost that is charged against revenue in the period in which it is incurred, similar to selling and administrative expenses.

When using variable costing, the cost of production will look something like this:

Direct Materials + Direct Labor + Direct Expense + Variable Factory Overhead = Total Cost of Production (in dollars).

Because of the variable costing method, the only manufacturing costs that are taken into consideration as product costs are those that change depending on the output. This category often encompasses not just the direct materials and direct labor, but also the variable element of the overhead costs associated with manufacturing.

The following is a list of features that are associated with variable pricing:

When using variable costing, the price of a good or service is established exclusively on the basis of the variable expenses that are incurred during its production.

In the context of this discussion, fixed factory overhead expenses are regarded as period costs and are subtracted from revenue in the same period in which they are incurred.

When compared to absorption costing, which incorporates fixed factory overhead into the cost of production, employing fixed factory overhead results in a cheaper cost of inventory. Absorption costing is the more common method.

When using variable costing, the operating income reacts differently to changes in sales rather than changes in production.

The Contribution Approach is the method that is utilized when it is necessary to compute the net income. To determine the cost of goods sold (C/M), start by subtracting the variable cost of goods sold from the total sales. Next, determine the net income by deducting all fixed expenses from C/M.

There is no need to make adjustments for under or over allocation of fixed factory overhead in variable costing since factory overhead costs that are fixed are not factored into the cost of producing the good or service.

The use of variable costs comes with a variety of benefits.

There are no charges that are fixed during the course of the entire project.

Difference between Absorption Costing and Variable Costing

Definition:

- Absorption costing is a method of product costing that takes into account all of the expenses associated with the production of a unit of that product, including the direct costs of materials and labor, as well as the variable and constant costs of manufacturing overhead.
- Variable costing It is a method of pricing that computes the cost of a single unit of a product by factoring in only the variable aspects of production, such as direct labor, direct materials, and variable factory overhead.

Calculation of the amount that was spent on production

Absorption costing i. Direct materials, ii. Direct labor, iii. Direct expenses, iv. Variable factory overhead, and v.

Variable costing. i. Direct materials, ii. Direct labor, iii. Direct expenses, v. Fixed factory overhead.

Direct materials, direct labor, direct expenses, and variable factory overhead make up the four categories of variable costs in variable costing.

The Contribution Approach, as well as the Facilities of Variable Costing

As was said earlier, the variable costing strategy, when combined with the contribution format income statement, is an appealing alternative to the absorption methodology that can be used for internal reporting purposes. In a nutshell, the following is a list of some of the advantages that variable pricing offers:

The information that is required for CVP analysis can be obtained through the use of income statements presented in the contribution format. This information is not easily accessible on an income statement prepared using the standard method of absorption costing.

The use of variable costing helps to ensure that shifts in inventory do not have an effect on the amount of profit earned within a particular time period. When variable costing is utilized, there is a clear correlation between the growth of sales and the movement of profits, provided that all other elements remain same (e.g., selling prices, costs, sales mix, and so forth).

It is common practice for managers to operate under the idea that unit production costs are considered variable expenses. This creates an issue for absorption costing as a result of the fact that unit product costs are a combination of both fixed and variable expenses. When using variable costing, unit product costs are not taken into account because this method does not take into account fixed costs.

As a direct consequence of this, the variable costing and contribution approaches place a greater emphasis on the influence that fixed expenses have on profitability. When the total amount of fixed costs is shown explicitly on the income statement, it serves as a reminder that the total amount of fixed costs must be covered in order for the company to be considered truly profitable in the long run. This is particularly useful when the total amount of fixed costs is quite large. Instead, absorption costing groups fixed costs in with variable costs and burying them within the cost of goods sold and ending inventories, which ultimately results in a decrease in total profitability.

The management may also find it beneficial to make decisions with the assistance of a pareto diagram, which depicts the frequency of each various sort of failure. Pareto diagrams can be found online. In addition to this, the cause and effect diagrams create a line between each result and one or more potential causes in an effort to relate each result to one or more possible causes.

One other tactic that might be utilized in the pursuit of elevating the overall quality of the product is employing a fishbone diagram in order to identify the myriad of aspects that are responsible for the product's subpar quality.

There is a considerable shortage of qualified accounting staff in the manufacturing industry.

It is essential to keep in mind that accountants whose primary concentration is on bookkeeping or financial accounting are not the same as accountants whose area of expertise is managerial accounting. There is a substantial link between the two, but the major objective of management accounting is to provide management with financial information that will facilitate the management team's decision-making process.

This indicates that management accounting goes beyond the simple counting of financial transactions that occur on a daily basis and instead focuses on forecasting and longer-term company choices rather than the simple counting of financial transactions that occur on a daily basis. Rather than focusing on forecasting and longer-term company choices, management accounting goes beyond the simple counting of financial transactions that occur on a daily basis.

Accounting serves a number of important purposes for managers, one of which is to assist managers in determining the prices of products by providing them with all of the pertinent information regarding the costs of production, the factors that influence the market, and the profitability of the business. This information is supplied to managers through accounting software. In a similar vein, management accountants may be useful in determining the life cycle of existing products as well as the viability of possible new goods. This can be done in the same way that they determine the feasibility of potential new products. The examination of financial records is one method for accomplishing this goal.

Management accountants, in their most basic form, provide crucial information that assists the management team of a firm in making a wide variety of important decisions. In order to be of assistance in the process of decision-making within an organization, CFOs not only provide a vast amount of financial and statistical information, but they also frequently make use of powerful accounting software. This is because CFOs are responsible for the oversight of the company's finances.

Despite the fact that a management accounting department is one of the most important departments in a company, the vast majority of company owners are unaware of this fact because of the "under the radar" style in which the department operates. A company's management accounting department is consistently ranked as one of the most significant departments in the organization. Management accountants are members of the inner circle of the firm and are responsible for directing and leading the company's overall business strategy through the performance of internal analysis. This responsibility falls on management accountants because they are members of the inner circle.

According to the job description, it is their responsibility to prepare internal financial reports, records, and accounts in order to provide assistance to managers as they make decisions that would assist the company in achieving its short-term and long-term business goals. This would be done in order to provide assistance to managers in making decisions that would aid the company in achieving its short-term and long-term business goals. To put it another way, it is their responsibility to simplify complex financial data for their clients so that it can be understood, and then to turn that comprehension into actionable insights.

Despite the fact that there is a lot more to this line of work than meets the eye at first glance, the definition of the phrase itself is quite simple and plain, making it simple to comprehend.

1. Expenses that are directly associated with the project

The most significant responsibility for the management accountant is to do a comprehensive cost analysis that is pertinent to the scenario. This will allow the management accountant to determine existing spending and give recommendations for future actions. This leads to the following question: how should I distribute the financial resources at my disposal?

Before taking any action, a business needs to conduct exhaustive research into all of its available alternatives and choose the method that would lead to the greatest increase in earnings. This indicates that management accountants need to investigate a variety of sales channels, products, and services, as well as marketing efforts, in order to identify which type of business is the most lucrative.

As soon as the management accounting team has finished conducting the necessary cost analysis, you will be in a position to make decisions that are better informed by data and can be implemented moving ahead.

2. Addressing Particular Groups of People

The needs of the clients are something that marketeers have to pay great attention to. Every organization needs to create a customer persona that takes into account all of the qualities that are important to their industry, including, but not limited to,

Even if you describe the typical consumer, there is still work to be done because there is a lot of room for improvement.

According to the accounting professionals at accounting help online, management accountants should do an analysis of the value of each client group in order to identify the units that generate the greatest profit: "By utilizing this specific method of audience targeting, you will be able to direct more of your attention and resources toward those markets that have the potential to provide you a greater return on investment over the course of the long haul."

3. Participate in or make purchases of evaluations

Because product development is typically the most expensive aspect of a company's operations, it is essential to identify which alternative meets the requirements of your organization in the most effective and efficient manner. In general, there are two options: either you make your own products or you buy them from a third-party source. You can build your own products or you can

buy them. Management accountants are the ones who, in this particular scenario, should be the ones to cut the knot and inform you what to do in order to proceed.

Their capability of determining the true cost of each option and deciding whether it is more cost-effective to make products in-house or to purchase them from a manufacturer has significantly improved as a result of this change. Despite the fact that this choice looks to be uncomplicated, it is actually rather significant, and it has the power to either make or break your business.

4. Create a financial plan.

When it comes to creating a budget, there is no room for error. Nothing. On the other hand, decisions pertaining to the budget need to be made in accordance with the sales history and marketing database that you have. Management accountants are required in this scenario in order to perform an investigation of the activities that came before it and to select investments for the activities that will come after it. Their responsibility is to generate financial predictions for each and every department, project, marketing campaign, new product, and other initiative that the company embarks upon.

5. Having complete command of the situation

Controlling is an additional significant component of management accounting that needs to be taken into consideration. When determining how well a firm is doing financially, it is necessary to first evaluate the work done by all company units before coming to any judgments. You will have an understanding of the factors that led to the profits as well as the losses that were generated by your departments if you proceed in this manner. If senior executives are forced to deal with problems of this nature, it will be much simpler for them to decrease costs in operational areas.

They can, for instance, lower the salaries of workers employed in departments that are performing poorly, or they can reduce the overall number of workers employed. On the other hand, the organization has the ability to make investments in divisions that ultimately turn out to be very profitable, which will result in an increase in the organization's overall profitability.

6. The preparatory work

One of the most important benefits of management accounting is the ability to recognize recurring monetary issues and anticipate forthcoming events. This is one of the most significant advantages of management accounting. Maintaining awareness of the most recent market trends enables you to move swiftly and put into action tactics that put you ahead of the competition, so enabling you to keep a major advantage over them.

Utilizing the planning skills that management accounting provides is another method for developing long-term corporate policies. As a consequence of this, you make certain that the entirety of the team stays on the same page and collaborates with one another to reach the business goals of your organization.

In conclusion, here are some concluding remarks

Any organization that hopes to be successful must place a high priority on the quality and accuracy of their data. If you don't have access to relevant and actionable insights, you won't be able to conduct an assessment of the present state of affairs or plan for the next steps your company will take. When faced with conditions like these, management accounting emerges as an essential component of the modern business.

Conclution :

When estimating the cost per unit, the method of absorption costing is utilized since it takes into account all expenditures, including fixed overhead costs. The variable costing method takes into account the internal reporting and presentation requirements of the business. The methodology of absorption costing is founded on external reporting requirements provided by third-party organizations.

When using full absorption pricing, the cost of the product takes into account both variable and fixed production overhead expenses. Expenses for fixed production overhead are deducted when using variable costing.

When the number of units produced is higher than the number of units sold, also known as an increase in the number of units in inventory, absorption income is higher than variable costing

income. This is due to the fact that absorption costing defers a portion of fixed manufacturing costs in finished goods inventory.

Timing is the primary distinction that can be drawn between the two different systems. When using the direct costing model, all of the fixed costs are added to the income statement straight away. The absorption costing model distributes fixed costs across all of the units that were generated throughout the course of the period.

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