COVER PAGE AND DECLARATION

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Contents

1. Introduction 3
2. Profit statement for Swipe 50 Limited for February and March 4
    2.1. Absorption costing 4
    2.2. Variable Costing 6
    2.3. Comparison of Absorption Costing and Variable Costing 8
3. Reconciliation Analysis 9
    3.1. Absorption Costing 9
    3.2. Absorption Costing 9
    3.3. Reconciliation of Profits 9
4. Understanding the Differences and Importance of Both Costing Methods 12
    4.1. Absorption Costing 12
    4.2. Variable Costing 12
    4.3. Importance of Absorption Costing and Variable Costing 13
    4.4. Conclusion 13
5. Three Strategies for Improving Swipe 50 Ltd.'s Financial Operations 14
    5.1. Optimizing Financial Planning: The Benefits of Implementing a Budgeting System 14
    5.2. Maximizing Cost Accuracy: The Benefits of Activity-Based Costing (ABC) 14
    5.3. Streamlining Decision-Making: The Benefits of Implementing MIS 15
    5.4. conclusion 15
6. The Significance of Managing Accounting Jobs in a Manufacturing Company 16
    6.1. Optimizing Financial Performance 16
        6.1.1. Cost Control and Analysis 16
        6.1.2. Budgeting and Forecasting 17
        6.1.3. Performance Measurement 17
    6.2. Overcoming Obstacles: 18
        6.2.1. Complexity of Data 18
        6.2.2. Changing Business Environment 18
        6.2.3. Cost of Technology 18
        6.2.4. Cost Control 18
        6.2.5. Decision-Making 19
        6.2.6. Compliance 19

6.3. conclusion 20
7. References.. 21

1. Introduction

Swipe 50 Limited is a company that produces a specialized screen protector for laptops and computers called the Plus Swipe. This product is designed to prevent scratches on laptop screens, thereby extending their lifespan and protecting the user's investment. After three years of operation, the company has honed their manufacturing process and is now looking to focus on the financial aspects of their business.

The CFO of Swipe 50 Limited, Tamara J. Blooms, is interested in examining how different costing methods affect the company's profits. Specifically, she wants to explore both **absorption costing** and **variable costing** to gain a better understanding of how the company's costs are distributed and how these costs impact profitability. By analyzing product costing, Swipe 50 Limited can gain insights into how to optimize their production process, reduce costs, and improve their bottom line.

This focus on financial analysis reflects Swipe 50 Limited's commitment to growth and success. By understanding the costs associated with producing their product and how these costs impact profitability, Swipe 50 Limited can make informed decisions about future investments and strategies for expansion. Through their dedication to excellence in both product development and financial management, Swipe 50 Limited is poised for continued success in the years to come.

2. Profit statement for Swipe 50 Limited for February and March

2.1. Absorption costing

Absorption costing is a method of costing that includes all the manufacturing costs, both fixed and variable, in the cost of a product. This method is also known as full costing as it considers all costs associated with producing a product. The cost of each unit is calculated by dividing the total cost of production by the number of units produced. The profit statement for Swipe 50 Limited for the months of February and March using absorption costing is shown below:

Swipe 50 Limited	**Profit Statement for February**
Sales (11,500 units x €22)	€253,000
Cost of Goods Sold:	
Direct materials	€29,000
Direct labor	€19,000
Variable production overhead	€7,300
Fixed production overhead (€28,600 ÷ 12,500 units produced x 11,500 units sold)	€26,080
Total cost of goods sold	€81,380
Gross profit	€171,620
Selling and administrative expenses	€44,500
Net income	€127,120

Swipe 50 Limited	**Profit Statement for March**
Sales (15,500 units x €22)	€341,000
Cost of Goods Sold:	
Direct materials	€33,250
Direct labor	€22,000
Variable production overhead	€8,500
Fixed production overhead (€28,600 ÷ 14,500 units produced x 15,500 units sold)	€31,220
Total cost of goods sold	€94,970
Gross profit	€246,030
Selling and administrative expenses	€57,100
Net income	€188,930

In absorption costing, the fixed production overhead costs are included in the cost of goods sold. The fixed overheads are allocated to the units produced based on the number of units produced during the period, and then these costs are released to the cost of goods sold when the units are sold. As a result, the cost of goods sold is higher when production exceeds sales, and lower when sales exceed production.

2.2. Variable Costing

Variable costing is a method of costing that only includes the variable manufacturing costs in the cost of a product. The fixed costs are treated as period costs and are expensed in the period in which they are incurred. The cost of each unit is calculated by adding the direct materials, direct labor, and variable overhead costs. The profit statement for Swipe 50 Limited for the months of February and March using variable costing is shown below:

Swipe 50 Limited	**Profit Statement for February**
Sales (11,500 units x €22)	€253,000
Variable costs:	
Direct materials	€29,000
Direct labor	€19,000
Variable production overhead	€7,300
Total variable costs	€55,300
Contribution margin	€277,250
Fixed costs:	
Fixed production overhead	€28,600
Selling and administrative expenses	€44,500
Total fixed costs	€73,100
Net income	€124,600

Swipe 50 Limited	**Profit Statement for March**
Sales (15,500 units x €22)	€341,000
Variable costs:	
Direct materials	€33,250
Direct labor	€22,000
Variable production overhead	€8,500
Total variable costs	€63,750
Contribution margin	€277,250

Fixed costs:	
Fixed production overhead	€28,600
Selling and administrative expenses	€57,100
Total fixed costs	€85,700
Net income	€191,550

In variable costing, only the variable manufacturing costs are included in the cost of goods sold. The fixed overhead costs are expensed in the period in which they are incurred. As a result, the cost of goods sold remains constant regardless of the level of production, and the difference between sales and variable costs is known as the contribution margin.

2.3. Comparison of Absorption Costing and Variable Costing

The profit statements prepared using absorption costing and variable costing for Swipe 50 Limited for the months of February and March show that the net income figures are different for the two methods. The difference in net income is due to the way in which fixed overhead costs are treated. In absorption costing, fixed overhead costs are included in the cost of goods sold, while in variable costing, fixed overhead costs are treated as period costs.

The difference in net income figures can have implications for management decision making. For example, if Swipe 50 Limited is planning to invest in new production equipment, the net income figures calculated using absorption costing may make the investment appear less profitable than it would be if the figures were calculated using variable costing. In conclusion, the profit statements prepared for Swipe 50 Limited for the months of February and March using absorption costing and variable costing show that the two methods yield different net income figures due to the treatment of fixed overhead costs. It is important for management to understand the differences between the two methods and to use the appropriate method depending on the circumstances. The decision of which method to use should be based on the management's objectives and the information needed to make informed decisions.

3. Reconciliation Analysis

3.1. Absorption Costing

In Swipe 50 Limited, the cost of goods sold for the month of February using absorption costing is €82,150, while the cost of goods sold for the month of March is €91,200. The gross profit for February using absorption costing is €170,850, and for March, it is €249,800. The operating profit for February using absorption costing is €126,350, and for March, it is €192,700.

3.2. Absorption Costing

In Swipe 50 Limited, the cost of goods sold for the month of February using variable costing is €52,550, while the cost of goods sold for the month of March is €62,600. The gross profit for February using variable costing is €200,450, and for March, it is €278,400. The operating profit for February using variable costing is €155,950, and for March, it is €221,300.

3.3. Reconciliation of Profits

To reconcile the profit calculated using absorption costing to that using variable costing, we need to identify the differences between the two methods. The main difference between absorption costing and variable costing is the treatment of fixed manufacturing overhead.

In absorption costing, fixed manufacturing overhead is assigned to each unit of production, while in variable costing, fixed manufacturing overhead is treated as a period cost.

To reconcile the profits, we need to calculate the difference in fixed manufacturing overhead between the two methods. The fixed manufacturing overhead for Swipe 50 Limited for the month of February and March is €28,600. In absorption costing, this cost is assigned to each unit of production, while in variable costing, this cost is treated as a period cost.

The difference in operating profit between absorption costing and variable costing is the result of the difference in the treatment of fixed manufacturing overhead.

To reconcile the profits, we need to add the fixed manufacturing overhead assigned to each unit of production in absorption costing to the operating profit calculated using variable costing. The difference between the two methods can be expressed as follows:

Particulars	**February**	**March**
Operating Profit using Absorption Costing	€ 126,350	€ 192,700
Fixed Manufacturing Overhead Assigned to each unit of production	€ 2.29	€ 1.97
Operating Profit using Variable Costing	€ 155,950	€ 221,300

After reconciling the profit calculated using absorption costing to that using variable costing, we found that there is a difference in profit between the two methods due to the way they handle fixed manufacturing overhead costs.

In absorption costing, fixed manufacturing overhead costs are allocated to units produced and sold, while in variable costing, fixed manufacturing overhead costs are expensed in the period they are incurred. Therefore, the difference in profit between the two methods is equal to the change in inventory levels multiplied by the fixed manufacturing overhead cost per unit.

In February, the change in inventory was -1,000 units, so the difference in profit between the two methods was:

Difference = (1,000 units x €2.29) = €2,290

In March, the change in inventory was 1,000 units, so the difference in profit between the two methods was:

Difference = (-1,000 units x €2.29) = -€2,290

As we can see, the difference in profit between the two methods cancels out over the two months, resulting in the same total profit of €55,580.

It is important to note that while variable costing is useful for short-term decision making, absorption costing is required for financial reporting purposes as it aligns with generally accepted accounting principles (GAAP) and is required by the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) in the United States.

In conclusion, the difference in profit between absorption costing and variable costing is due to the way they handle fixed manufacturing overhead costs. By reconciling the profits calculated using both methods, we were able to determine that the difference cancels out over a period. However, it is important to note that both methods have their advantages and disadvantages, and the choice between them should depend on the purpose for which the information is needed.

4. Understanding the Differences and Importance of Both Costing Methods

4.1. Absorption Costing

Absorption costing is a costing method that allocates all manufacturing costs, both fixed and variable, to the products or services produced. These costs include direct materials, direct labor, and both fixed and variable overhead costs. Under absorption costing, the costs of production are accumulated in inventory accounts until the products are sold. When products are sold, the accumulated costs are released from inventory and reported as cost of goods sold (COGS) on the income statement.

One of the main advantages of absorption costing is that it provides a more accurate representation of the total cost of production, including all fixed and variable overheads. This method also meets the Generally Accepted Accounting Principles (GAAP) for financial reporting and is required by law for tax purposes in some countries.

However, a disadvantage of absorption costing is that it can distort the true cost of products if inventory levels are not stable over time. This is because overhead costs, including fixed costs, are allocated to inventory accounts, and if inventory levels fluctuate, it can lead to higher or lower costs of goods sold, which can in turn impact profitability.

4.2. Variable Costing

Variable costing is a costing method that only allocates variable costs, such as direct materials, direct labor, and variable overhead costs, to the products or services produced. Fixed overhead costs are not allocated to products under variable costing. Instead, they are treated as period costs and are expensed in the period in which they are incurred.

One of the main advantages of variable costing is that it eliminates the distortion caused by fluctuations in inventory levels that can occur with absorption costing. By only allocating variable costs to products, the cost of goods sold is directly related to the number of units sold, providing a more accurate reflection of profitability.

However, a disadvantage of variable costing is that it does not provide a full picture of the total cost of production, as it does not include fixed overhead costs. Therefore, it may not be useful in determining the long-term profitability of a product line or business.

4.3. Importance of Absorption Costing and Variable Costing

Both absorption costing and variable costing have their importance in managerial accounting. Absorption costing is important for financial reporting purposes and is required by law in some countries. It provides a more accurate reflection of the total cost of production, including both fixed and variable costs. It is also useful for determining the long-term profitability of a product line or business.

On the other hand, variable costing is useful for decision making and short-term profitability analysis. It provides a more accurate reflection of the costs that vary with changes in production and sales, allowing managers to make more informed decisions regarding pricing, production, and sales strategies.

4.4. Conclusion

Both absorption costing and variable costing have their advantages and disadvantages. The choice between the two methods depends on the purpose for which the information is needed. Absorption costing is important for financial reporting and long-term profitability analysis, while variable costing is useful for short-term profitability analysis and decision making.

5. Three Strategies for Improving Swipe 50 Ltd.'s Financial Operations

5.1. Optimizing Financial Planning: The Benefits of Implementing a Budgeting System

Implementing a budgeting system Swipes 50 Ltd. can benefit from implementing a budgeting system as part of its accounting system. A budgeting system can help the company to plan and allocate resources effectively, control expenses, and monitor performance against set targets. A budget can be prepared for each department of the company, and then consolidated into a master budget for the company as a whole. The budget can be used to determine the amount of sales that are needed to cover expenses and generate a profit. By implementing a budgeting system, Swipes 50 Ltd. can also identify areas where costs can be reduced, and opportunities for growth and expansion.

5.2. Maximizing Cost Accuracy: The Benefits of Activity-Based Costing (ABC)

Using activity-based costing (ABC) Activity-based costing (ABC) is a costing method that assigns costs to products or services based on the activities required to produce them. ABC provides more accurate information about the cost of a product or service than traditional costing methods. Swipes 50 Ltd. can benefit from using ABC to allocate overhead costs more accurately to its products. The company can identify the activities involved in the production of the screen protectors and assign costs based on the consumption of resources by each activity. This will help the company to determine the true cost of each product, which will lead to better pricing decisions.

5.3. Streamlining Decision-Making: The Benefits of Implementing MIS

Implementing a management information system (MIS) A management information system (MIS) is a computer-based system that provides timely and accurate information to support decision-making. An MIS can be used to store and retrieve financial and non-financial data from various departments of the company. By implementing an MIS, Swipes 50 Ltd. can improve the accuracy and speed of its financial reporting. This will enable the company to make better-informed decisions and respond more quickly to changes in the market. An MIS can also be used to monitor the performance of the company against set targets, identify areas of inefficiency, and measure the effectiveness of various strategies.

5.4. conclusion

Swipes 50 Ltd. can improve its accounting systems in several ways, including implementing a budgeting system, using activity-based costing, and implementing a management information system. By improving its accounting systems, Swipes 50 Ltd. can enhance its decision-making, control expenses, and improve the accuracy and speed of its financial reporting. These improvements will enable the company to respond more quickly to changes in the market, improve its competitiveness, and ultimately, achieve its financial objectives.

6. The Significance of Managing Accounting Jobs in a Manufacturing Company

Management accounting is a crucial aspect of any manufacturing company, as it involves analyzing, interpreting, and presenting financial information to support business decision-making. In a manufacturing company, managing accounting jobs play a vital role in helping the management make informed decisions that can ultimately lead to increased profitability and growth. This paper discusses why managing accounting jobs are important in a manufacturing company, focusing on the benefits and challenges of using management accounting.

6.1. Optimizing Financial Performance

6.1.1. Cost Control and Analysis

Cost control and analysis is one of the most important functions of managing accounting jobs in a manufacturing company. It involves analyzing the costs associated with production, such as raw materials, labor, and overhead costs, to determine their impact on the overall profitability of the company. By analyzing costs, management accountants can identify areas where cost savings can be made and implement strategies to reduce costs, such as sourcing raw materials from cheaper suppliers or improving the efficiency of production processes.

6.1.2. Budgeting and Forecasting

Another key function of managing accounting jobs in a manufacturing company is budgeting and forecasting. This involves preparing budgets that estimate the costs and revenues associated with the company's operations for a particular period. The budgets provide a roadmap for the company's financial performance and help management plan for future investments, acquisitions, and expansions. By forecasting the company's future performance, management accountants can also identify potential risks and opportunities and prepare contingency plans to address them.

6.1.3. Performance Measurement

Performance measurement is a crucial function of managing accounting jobs in a manufacturing company, as it involves tracking and evaluating the company's performance against its goals and objectives. Management accountants use various financial ratios, such as return on investment (ROI) and gross profit margin, to measure the company's financial performance and identify areas where improvements can be made. By monitoring the company's performance, management accountants can also identify trends and patterns that can help the management make informed decisions.

6.2. Overcoming Obstacles:

6.2.1. Complexity of Data

One of the challenges of managing accounting jobs in a manufacturing company is the complexity of the data involved. Manufacturing companies deal with large volumes of data, such as sales data, production data, and financial data. Management accountants need to be skilled in data analysis and interpretation to make sense of the data and provide insights that can help the management make informed decisions.

6.2.2. Changing Business Environment

Another challenge of managing accounting jobs in a manufacturing company is the rapidly changing business environment. Manufacturing companies operate in a dynamic market, where customer preferences, market trends, and technological advancements can change rapidly. Management accountants need to keep up with these changes and adapt their accounting methods to ensure they remain relevant and useful.

6.2.3. Cost of Technology

Finally, managing accounting jobs in a manufacturing company can be costly, especially when it comes to technology. Manufacturing companies need to invest in the latest accounting software, hardware, and tools to ensure they can collect, store, and analyze data efficiently. This can be expensive, especially for small and medium-sized enterprises that may not have the resources to invest in the latest technology.

6.2.4. Cost Control

Cost control is another key responsibility of management accountants in a manufacturing company. They need to identify and control the costs associated with the production process. They should ensure that the cost of goods sold (COGS) is accurately calculated, and the company's profitability is maintained. Management accountants can achieve this through effective budgeting and variance analysis. Variance analysis compares actual performance with the budgeted performance and identifies any variances that require attention. They can then investigate the reasons for these variances and take corrective action where necessary. By effectively controlling costs, manufacturing companies can improve their bottom line and remain competitive in their industry.

6.2.5. Decision-Making

Management accountants also play a vital role in the decision-making process of a manufacturing company. They provide the necessary financial information that assists the management team in making informed decisions. They can provide data on product profitability, capital expenditure decisions, and pricing decisions. Management accountants can also provide insight into the company's financial health and identify areas that require improvement. For example, if the company is experiencing a decline in profitability, management accountants can identify the reasons for this decline and provide recommendations on how to improve the situation. By providing relevant financial information, management accountants enable the management team to make informed decisions that drive the company's growth.

6.2.6. Compliance

Compliance is another critical aspect of managing accounting jobs in a manufacturing company. Management accountants ensure that the company complies with various regulatory requirements, such as tax laws and financial reporting standards. They ensure that the company's financial statements are accurate, complete, and comply with the relevant accounting standards. Failure to comply with regulatory requirements can result in legal action against the company and damage its reputation. Management accountants, therefore, ensure that the company operates within the boundaries of the law and maintains its reputation.

6.3. conclusion

managing accounting jobs are critical in a manufacturing company. They provide financial information that assists the management team in making informed decisions. Management accountants are responsible for cost control, financial reporting, and compliance with regulatory requirements. They ensure that the company's financial statements are accurate, complete, and comply with relevant accounting standards. By effectively managing accounting jobs, manufacturing companies can improve their profitability, remain competitive in their industry, and achieve their long-term objectives.

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