COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialisation:	MBA in Finance
Affiliated Center:	CEO
Module Code & Module Title:	MGT510: Managerial Accounting
Student's Full Name:	Mostafa Ahmed Mahmoud Abdelgawad
Student ID:	EIU2020886
Word Count:	3,878
Date of Submission:	22nd May 2022

I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.

E-SIGNATURE: Mostafa Abdelgawad

DATE: 20/05/2022

Table of Contents

Introduction

Management accounting is one of the core units of a company, and management accountants are the insiders who create internal analyses to guide the overall business strategy.

Management accounting is the practice of identifying, measuring, analyzing, interpreting, and communicating financial information to managers in order to pursue the goals of the organization. It differs from financial accounting because the intended purpose of management accounting is to assist the company's internal users in making informed business decisions.

Management accounting deals with the internal factors and numbers that influence decision-making, operational control, management planning, and reporting. Usually, the management accountant is responsible for achieving the management objective of the company. Tasked with managing and tracking revenue and expenses, these professionals' duties may extend to assisting companies with internal operational accounting work such as payroll, tax, and asset management.

The concept of managerial accounting appeared for the first time in 1950, during the formation of a team in the name of management accounting through the Anglo-American Council, and the mission of the team was to visit a group of industrial facilities located in the United States in order to formulate a report on the nature of work in it, then the report was published under the title (Management Accounting), and it contained a definition of the concept of this type of accounting by explaining accounting information in a way that helps management to prepare special policies in the daily operations of the establishments.

1- Profit Statement

The profit statement (or the profit and loss statement) is defined as one of the three basic financial statements through which the financial performance of the company is reported during a specific period of time called the accounting period. A summary that summarizes the company's revenues, costs and expenses, as well as shows the profits and losses for the specific financial period.

a) Profit and loss statement according to Absorption Cost:-

Under absorption costing, gross profit is calculated by subtracting the cost of goods sold from revenue, which includes all variable and fixed manufacturing costs of goods sold.

All variable and fixed non-manufacturing costs (period costs) are then subtracted from gross profit to calculate operating income.

The Profit and loss statement (through operating income) under absorption costing is as follows:

Sales revenue	XXX
(-) Cost of Goods Sold (Variable and fixed manufacturing costs of goods sold)	(XXX)
= Gross profit	**= XXX**
(-) Variable non-manufacturing costs (expenses)	(XXX)
(-) Fixed non-manufacturing costs (expenses)	(XXX)
= Operating income	**= XXX**

b) Profit and loss statement according to Variable Costs: -

Under variable costing, the manufacturing contribution margin is calculated by subtracting all variable manufacturing costs of the goods sold from the revenue.

From the industrial contribution margin, the non-manufacturing variable costs are subtracted to arrive at the contribution margin.

All fixed costs (manufacturing and non-manufacturing) are subtracted from the contribution margin to arrive at the operating income.

The income statement (through operating income) under the variable cost account is as follows:

Sales revenue	XXX
(-) Variable manufacturing costs (for items sold)	(XXX)
= Manufacturing contribution margin	**= XXX**
(-) Variable non-manufacturing costs (expenses)	(XXX)
= contribution margin	**= XXX**
(-) All fixed manufacturing costs (expenses),	(XXX)
(-) All fixed non-manufacturing costs (expenses)	(XXX)
= Operating income	**= XXX**

a) Profit Statement for Swipe 50 Limited for the month of February and March based on the givens using: [Absorption costing & Variable costing]

Absorption and variable costing explain operating – income differences.

Actual data for Swipe 50 Limited Manufacture, based on data and conclusions, is as follows:

S	Description	February	March
1.	Beginning inventory (units)	0	1,000
2.	Production (units)	12,500	14,500
3.	Sales (units)	11,500	15,500
Variable costs:			
4.	Manufacturing cost per unit produced	€ 4.42	€ 4.40
5.	Operating (marketing) cost per unit sold	€ 36,225	€ 48,825
Fixed costs :			
6.	Manufacturing costs	€ 28,600	€ 28,600
7.	Operating (Marketing) costs	€ 8,275	€ 8,275

* Manufacturing cost per unit produced =

(Direct Materials + Direct Labour + Variable Production Overhead) ÷ Production

(29,000 + 19,000 + 7,300) ÷ 12,500 = € 4.42 [Feb,]

(33,250 + 22,000 + 8,500) ÷ 14,500 = € 4.40 [Mar,]

∵ there is a difference between Feb and Mar sales, so there should be a variance in selling and administrative expenses.

Sales of Mar. – Sales of Feb
15,500 – 11,500 = € 4,000
total selling and administrative expenses of Mar, – total selling and administrative expenses Feb,
57,600 – 44,500 = € 12,600
So 12,600 ÷ 4,000 = € 3.15
The € 3.15 is the variance of selling and administrative expenses per unit, and in order to know and separate fixed and variable expenses, we must first know the variable administrative and marketing costs per unit.

And then we reduce it from total administrative and marketing expenses (given).

So the Variable operating (marketing) cost per unit sold = Selling X € 3.15

11,500 X 3.15 = € 36,225 [Feb,]
15,500 X 3.15 = € 48,825 [Mar,]

Fixed operating (Marketing) costs = Total Selling and Administrative Expenses - Variable operating (marketing) cost

44,500 – 36,225 = € 8,275 [Feb,]
57,100 – 48,825 = € 8,275 [Mar,]

*Adjusted cost of goods sold
the production capacity 20,000 units per month but the production in Feb was 12,500 unit and in Mar was 14,500 unit.

So the extra cost: 20,000 – 12,500 = 7,500 unit [Feb,]
20,000 – 14,500 = 5,500 unit [Mar,]

And after we calculated and deduced all the figures, and information required to create a profit list, here is the profit statement for Swipe 50 Limited:

1st Profit Statement for Swipe 50 Limited / Absorption Costing

	February	**March**
Sales revenue (sales per month X € 22)	€ 253,000	€ 341,000
(-) Cost of Goods Sold = beginning inventory + production - Ending inventory	(€ 73,140)	(€ 93,710)
= Gross profit	€ **179,860**	**€ 247,290**
(-) Variable non-manufacturing costs (expenses)	(€ 8,275)	(€ 8,275)
(-) Fixed non-manufacturing costs (expenses)	(€ 36,225)	(€ 48,825)
= Operating income	**€ 135,360**	**€ 190,190**

2nd Profit Statement for Swipe 50 Limited / Variable Costing

	February	**March**
Sales revenue	€ 253,000	€ 341,000
(-) Variable manufacturing costs (for items sold)	(€ 46,828)	(€ 62,822)
= Manufacturing Contribution Margin	€ **206,172**	**€ 278,178**
(-) Variable non-manufacturing costs (expenses)	(€ 36,225)	(€ 48,825)
= Contribution Margin	**€ 169,947**	**€ 229,353**
(-) All fixed manufacturing costs (expenses),	(€ 28,600)	(€ 28,600)
(-) All fixed non-manufacturing costs (expenses)	(€ 8,275)	(€ 8,275)
= Operating Income	**€ 133,072**	**€ 192,478**

2- Reconcile the profit calculated using absorption costing to that calculated using variable costing.

	February	March
Operating Income / Absorption Costing	**€ 135,360**	**€ 190,190**
(-) Fixed manufacturing overhead (Closing Inventory)	(€ 2,288)	--
(+) Fixed manufacturing overhead (Beginning Inventory)	--	€ 2,288
= Operating Income by Variable Costing	**€ 133,072**	**€ 192,478**

3- The explanation of how each method differs from the other methods and the importance of each method.

While absorption costing is required for external reports (GAAP financial statements), it is generally believed that variable costing is better to use for internal reports.

Absorption cost vs. variable cost

Knowledge about the difference between absorption costing and variable costing is a must for doing product costing. In fact, the success of the manufacturing business mainly depends on the way the cost of the product. 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. absorption cost

- **Absorption cost:**

Companies must choose between using absorption costs or variable costs in their accounting systems. There are advantages and disadvantages to either option. Some of the main advantages of absorption costing are that it recognizes all costs involved in production (including fixed costs), it does a better job of accurately tracking profits during the accounting period, and it is consistent with generally accepted accounting (GAAP). Disadvantages of using absorption costs include that it is not particularly useful for analysis designed to improve operational or financial efficiency, that it is not useful for comparing product lines, and that it can misrepresent a company's profitability picture.

The company's management can choose to display costs in different ways. Firms that use absorption costs choose to allocate all production costs. Absorption cost indicates that all of the company's costs are absorbed by the company's products. Under variable costing, which is the other option for determining costs, only the variable costs of production are considered. Overhead costs, such as rent and wages, are considered separately.

Advantages of Using Absorption Cost:

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 (IFRS). Even if a company chooses to use variable costs for internal accounting purposes, it still calculates the absorption cost 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.

Disadvantages of Absorption Cost:

Absorption costing can result in a company's profit level appearing better than it actually is during a given accounting period. This is because all fixed costs are not deducted from revenue unless all of the company's manufactured products are sold. In addition to misrepresenting the profit and loss statement, this can potentially mislead the company's management and investors.

Absorption costing fails to provide a good analysis of cost and volume as it does for variable costing. If fixed costs constitute a particularly large part of total production costs, it is difficult to determine the differences in costs that occur at different levels of production. This in turn makes it difficult for management to make the best decisions for operational efficiency.

Variable costing is more useful than cost absorption if the company wants to compare the potential profitability of different product lines. It is easier to discern differences in profits from producing one item over another by looking only at the variable costs directly related to production.

- **Variable Cost: -**

Variable costs, also known as direct costs or marginal costs, are only considered as direct costs as the cost of the product. 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 similarity between absorption costing and variable costing is that the purpose of both approaches is the same: to estimate the cost of the product.

Advantages of Using Variable Cost

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

absorption cost.

By not including fixed costs in the production cost calculation, companies are able to improve performance. and 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 cost is more consistent with economic reality, because fixed costs do not vary with short-run levels of production.
Disadvantages and limitations of using variable costs

Variable costing does not provide an appropriate matching between costs and benefits and is therefore not acceptable External financial reporting in accordance with generally accepted accounting principles. Variable costs are also not acceptable for preparing income tax reports.

Since only variable manufacturing costs are charged to inventory, variable costing requires separating all manufacturing costs into their fixed and variable components.
To prepare the income statement on the basis of variable costs, it is also necessary to separate selling and administrative costs into their fixed and variable components.

Observation:

1- The issue of using absorption costing versus variable costing is only appropriate for manufacturing companies.

2- A company that does not do any manufacturing, such as a vendor or a service firm, will have only non-manufacturing fixed costs. The non-manufacturing fixed costs of such a firm will simply be expenses when incurred.

4- Three ways that Swipes 50 Ltd. can improve its accounting systems.

The managerial accounting process is an essential transactional process within the financial and managerial function,
and involves the maintenance of a chart of accounts; Processes starting from journal entries to the assignments, and adjustments; Performing reconciliations, consolidation, and deletion; Finally, preparing trial balances and closing books at the end of the period. For small organizations, this vital process may not be very cumbersome or resource-intensive, but for large organizations distributed with many different business units or subsidiaries, this process can be very complex and laden with resources.
Leading companies are constantly working to simplify, standardize and automate public accounting processes and related activities as much as possible so that the remaining work is uniquely suited to the talents and skills of financial professionals and accountants working in this field.

So that we recommend the below 3 ways to Swipes 50 Ltd. could improve its accounting systems:

1st) Maintaining a large database within the accounting system:

The importance of a large database drives you to reach to accurate financial statements that show the company's revenue sources, how it spends its money, assets, and liabilities, and how it manages its cash flows.

Financial statements include balance sheets, which list the company's assets, liabilities, and net worth, and income statements, which indicate the amount of revenue the company has generated during a specific time period in addition to its expenses, cash flow statements show how much cash the company has, and shareholder equity statements, which reflect the company's stock performance over time. Financial statements play an important role in attracting potential investors and in starting a new business, if we are trying to attract investors to help grow the business, they are likely to want to present the financial statements to determine the financial and business health in general, and if a particular business is started. lenders will want to see a business plan with projected financial statements. In addition, all the financial statements of the company are interrelated, and each has an impact on the others.

For example, the increase in assets on the balance sheet may be due to the increase in income in the income statement. For this reason, it is necessary to analyze all the financial statements to get the full picture. If investors want to start a business or want to prepare financial statements for the first time, they may need the help of professionals, and it is also possible for a certified public accountant to prepare financial statements for investors.

2nd) Do not change the posting system frequently:

Posting in accounting is when the balances in the subsidiary ledgers and general journal are transferred to the general ledger. Posting only moves the total balance in the sub-ledger to the general ledger, not the individual transactions in the sub-ledger. The accounting manager may choose to participate in the posting relatively infrequently, such as once a month, or perhaps as frequently as once a day.

The sub-ledger is used only when there is a large volume of transaction activity in a particular accounting area, such as inventory, accounts payable, or sales. Thus, posting applies only to positions of greater volume. For low-volume transaction cases, entries are made directly in the general ledger, so there are no subsidiary ledgers and therefore no posting is required.

Although this step seems simple, it is the most important step in the accounting cycle, and the financial manager must be responsible for it.
Because an error in it affects the financial statements and changing this posting system many times leads to misleading and incorrect financial statements and statements.

3rd) Create a clear chart of accounts in the system:

A clear chart of accounts is important for several reasons. Most importantly, it gives you a clear picture of our company Swipes 50 Ltd.'s financial situation. This is beneficial not only to our company but also to investors and shareholders who may not have a role in the day-to-day operations of your company. It also makes it easier for companies to comply with financial reporting standards, which makes a clear chart of accounts very useful.

A clear chart of accounts gives us insight into your business revenue. It not only tells you how much money you earn, but it also shows the peaks and dips in your income, how much cash flow you have at your disposal, and how long you should last have given your average monthly business expenses.

Having an accurate chart of accounts makes it easier for you or your accounting professional to develop in-depth financial reports to help you understand your company's financial position, including the cash flow statement, balance sheet, and income statement.

5- The managing accounting jobs are important in a manufacturing company

It aims to a large extent to determine the cost of the product because this determination is of great importance to the departments of economic units. Because determining the cost will be the basis for determining the prices of these products or services and moving away from the inaccurate estimation of costs in addition to the other goals that cost accounting seeks to achieve through the data presented to senior management in planning, control, and rational economic decision-making, and in light of this, this book came ``Cost accounting in manufacturing companies between theory and practice",

In ten chapters dealing with: Cost Accounting: Justifications, Objectives, and Concept, Classifications of Costing Elements, Cost Element Materials and control over it, element of wage cost and control over it, indirect industrial costs and control over it, cost theory: production orders system, production stages system, treatment of damaged and lost units in the production stages system, costs of joint products

So, the importance of management accounting in manufacturing companies revolves around the following points:

Planning and control:

Management accounting can assist 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.
Measuring the effectiveness of planning decisions is called control. Some small industrial firms use a controller, who oversees the entire planning and control practices of the organization.

Costing

Cost accounting is another discipline within management accounting that helps the administrator to make important decisions and exists in the form of a separate department in all manufacturing companies.
Cost accounting involves dividing costs into specific categories and then assigning costs to a specific product or service.

The decision-maker can also determine the cost associated with certain activities and determine whether a company can reduce certain costs.
A decision-maker can use information produced by cost accountants to determine whether a particular product is profitable.
For example, the decision-maker may decide to cancel the manufacture of a particular product if it is determined that the revenue and profits of the resulting product cannot justify the costs incurred on its production.

Marginal Cost

It is the effect on the cost of a product by adding one additional unit to production. It is useful for short-term economic decisions.

The contribution margin for a particular product is its effect on the company's overall profit. Margin analysis flows into break-even analysis, which involves calculating the contribution margin to the sales mix to determine the unit size at which the company's total sales are equal to total expenses. Break-even analysis is useful for determining price points for products and services.

Price and evaluation of the product

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 determine those costs, in addition to allocating overheads to each type of product created by the company, which we discussed in more detail previously, specifically point No. 3.

Management accountants calculate and allocate overhead costs 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.

Improve Efficiency

Managerial accounting can set the goal for each department within the manufacturing company through the budget control system. Actual performance is compared to goals performance. Deviations are discovered and categorized into two categories, positive and negative deviations.

If the deviations are positive, the concerned department is appreciated them, but in the case of negative deviations, the reasons are discovered to give ideas to improve the efficiency of the relevant management.

In this way, the efficiency of departments in the company as a whole is improved.

Conclusion

The above explanation is concluded for Swipes 50 Ltd. Through various management accounting tools and techniques, the company receives the accounting information required by the management accountant for the decision-making process on all projects that Swipes 50 Ltd. is working on.

Account management provides information to the executives of our Swipes 50 Ltd. It can be used in the production and development of screen protectors for laptops as well as assist the company in selecting priorities and strategic plans for the company's growth and progress.

And the role of the management accounting department is necessary and vital for the company as it directs and guides the higher management.

in the direction of profitability and benefit in general.

References

1- Kurt Heisinger, Sierra College and Joe Hoyle (2012) ***Managerial Accounting***: Richmond.
USA: University of Richmond.

2- Irvin N. Gleim, Dale L. Flesher (2016) ***Gleim CMA Review, Part 2, Managerial Accounting***: Gleim Publications, 2016.

3- Christopher J. Skousen Larry M. Walther (2010) ***Introduction to Managerial Accounting***: Managerial and Cost Accounting 1st edition.

4- Christopher Akroyd, Laurie L. Burney (2021) ***Advances in Management Accounting:*** Emerald Group Publishing, 2021.

5- Asish K. Bhattacharyya (2009) ***Principles and Practice of Cost Accounting***: PHI Learning Pvt. Ltd.

6- Banerjee Bhabatosh, (2021) ***Cost Accounting: Theory and Practice*** : University of Calcutta,

7- Directorate of Studies the Institute of Cost Accountants of India (ICAI) (2016) ***Cost Accounting***.

8- Saylor Academy Open Textbooks | Saylor Academy