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Introduction:

Managerial accounting is one of the very important guiding principles in today's rapidly advancing business environment. It provides direction to the management in order to allocate resources effectively, make informed decision and create value. It has emerged and serves as strategic tool to the organization for the achieving long term growth and profitability, unlike traditional methods of book-keeping.

Financial reports are prepared annually to address external stakeholders of a business such as investors and regulatory authorities who want to understand its performance and tax liability, whereas managerial accounting focuses more on to support the internal stakeholders such as managers, executives, and employees by providing timely and relevant information important in daily operations. One key trait beside the mentioned is that it considers non-financial data as well in the process of decision making.

As discussed, managerial accounting provides necessary insights on important subjects such as product mix, pricing strategies, resource allocation and operational efficiency to the managers for them to draw strategies and support their decisions. Detailed analysis also allows managers to find the areas of improvements, opportunities of cost reduction and facilitate data-driven decision making.

If we discuss about the key learnings and methods used in managerial accounting, two important approaches have proven useful namely, variable costing approach and absorption costing approach. The fundamental difference between the two is the difference between the treatment of fixed manufacturing cost in both the approaches. This difference significantly affects product costing, inventory valuation and profits.

Let's discuss in brief about variable costing approach, also known as marginal costing approach. It only considers variable costs related to production such as direct labor, direct material, and variable overhead as expenses to compute cost of goods produced. Fixed manufacturing overhead here is treated as period costs and is directly expensed in the Income Statement, regardless of the production level. As cost of goods produced doesn't consider fixed manufacturing overhead, contribution which is computed as revenue less variable cost is affected, this provides valuable insights for understanding a products profitability and in making pricing decisions.

Now let's discuss absorption costing approach in brief which is also known as full costing approach. Unlike marginal costing, it considers both variable costs and fixed manufacturing costs into product cost. This approach is in relevance with the Generally Accepted Accounting Principles (GAAP) which is suitable for the purpose external reporting i.e., reporting for investors, regulatory bodies, etc. As all production related costs are considered in the cost of product this approach provides a more accurate representation of the total cost of the production, which is essential for inventory valuation, analyzing profitability and determining product pricing.

Specific objective of an organization and decision-making needs directs the choice between either of the two approaches. The marginal/ variable costing approach is generally useful for short-term decision making, such as evaluating product mix, analyzing profitability at various sales volume, and conducting cost-benefit analysis. On the other hand, absorption method will be used for the purpose of external financial reporting, inventory valuation and analyzing long term profitability.

Managerial accounting further teaches the importance of strategic planning, and long-term decision making. Managerial Accountants conducts feasibility testing, financial projections, and strategic testing to develop strategic plans for achieving growth and profitability. By integrating financial data with non-financial factors such as market trends, competitive landscape, and organizational capabilities, managerial accounting empowers organizations to make informed strategic choices that align with their organizational goals and objectives.

In today's rapidly evolving business environment, companies are recognizing the importance of non-financial factors such as sustainability, CSR, employee satisfaction into strategic planning and decision-making process. Managerial Accounting allows organization to achieve these broader considerations, making organizations aware about societal and environmental objectives along with financial objectives, to foster long term sustainability.

Absorption & Variable Costing

Cost Accounting comprises of two approaches for the purpose of inventory valuation and income determination, and they are known as absorption costing and variable costing approach. As mentioned earlier the key difference between both is their treatment of fixed manufacturing cost.

Absorption Costing Approach:

It is the costing approach where all the cost related to production both fixed and variable costs are considered in the cost of the product. Inventory are valued through this approach.

Following components are considered in the cost of product under the absorption method:

1. Direct Materials: The cost of raw materials directly used in the production process.
2. Direct Labor: The wages paid to workers directly involved in the manufacturing process.
3. Variable Manufacturing Overhead: Costs that vary directly with the level of production, such as indirect materials, indirect labor, utilities, and supplies.
4. Fixed Manufacturing Overhead: Costs that remain constant regardless of the level of production, such as rent, depreciation, property taxes, and insurance related to the manufacturing facility.

The absorption costing approach is widely used for the purpose of external reporting. It adheres to the matching principle of accountancy which says the all the costs related to revenue should be subsequently expensed. This results in all the production related costs are included in the cost of inventory.

Variable Costing Method:

The variable costing method, also known as the direct costing method or the marginal costing method, is an inventory valuation technique where only the variable manufacturing costs are included in the cost of the product. Fixed manufacturing overhead costs are treated as period costs and are expensed in the period in which they are incurred, regardless of the level of production.

Following components are included in the cost of product under variable costing approach.

1. Direct Materials: The cost of raw materials directly used in the production process.
2. Direct Labor: The wages paid to workers directly involved in the manufacturing process.
3. Variable Manufacturing Overhead: Costs that vary directly with the level of production, such as indirect materials, indirect labor, utilities, and supplies.

Fixed manufacturing overhead costs are excluded from the cost of the product and are treated as period costs.

Importance of Each Method:

If we look at the importance of both the approaches, they both have their own merits and applications which can be used for various aspects in cost accounting.

Importance of Absorption Costing Approach:

1. **GAAP Compliance:** It is useful for the purpose of reporting financials to external parties, by complying with Generally Accepted Accounting Principles (GAAP).
2. **Inventory Valuation:** As all the cost related to production i.e., fixed cost and variable cost are considered as manufacturing cost, it helps us provide more accurate valuation of inventory which is essential for companies who maintain significant inventory levels.
3. **Product Costing:** Product cost with the help of absorption method provides more holistic approach, as it takes into consideration all the cost related to production i.e., fixed and variable cost.
4. **Tax Purposes:** The absorption costing approach is generally accepted for tax purposes, as it ensures that all costs related to manufacturing of goods are considered.

Importance of Variable Costing Method:

1. **Managerial Decision-Making:** The variable costing method helps managers in the decision-making process related to pricing, product mix and understanding cost-benefit analysis of production. This is mainly possible as it emphasizes on variable cost as product cost.
2. **Cost-Volume-Profit Analysis:** As only variable costs are considered in production cost, managers can easily analyze the relationship between costs, volume and resulting profit.
3. **Contribution Margin Analysis:** In variable costing one calculates contribution by deducting variable costs from the revenue. By conducting cross-sectional and time series analysis, they can understand the changes in contribution over the period and the reasons for the same.
4. **Operational Decisions:** The variable costing method is helpful in identifying bottlenecks, optimal production level and in evaluating the feasibility of special orders or projects. It helps managers in making such operational decisions.

Importance of Management Accounting Jobs:

In manufacturing company for various reasons management accounting job is crucial. It's very important to obtain accurate and timely accounting information in order form informed decisions, cost control and performance evaluation.

Following are the very important reasons to employee for management accounting jobs:

1. Cost Management and Control:

Manufacturing companies generally incurs various types of costs which includes direct labor, direct materials, and overhead costs. For maintaining competitiveness and profitability effective cost management is essential. Accounting jobs, with responsibility of cost accounting and budgeting, are responsible for tracking, analyzing, and reporting such costs. This information is crucial for identifying areas of inefficiency, controlling costs, and making informed decisions regarding product mix, pricing, and resource allocation.

2. Inventory Management:

Manufacturing companies deal with various types of inventories which may include raw materials, work-in-progress, and finished goods. Proper inventory management is essential in order to achieve efficiency in production process, meeting consumer demand and also in minimizing carrying costs. Accounting jobs, with responsibility of tracking inventory levels, valuing inventory, and identifying obsolete or slow-moving items is a very crucial task. This information helps in maintaining optimal inventory levels, reducing waste, and maximizing profitability.

3. Financial Reporting and Compliance:

All organizations are required to prepare financial reports which complies with various accounting principles and standards. Accountants are responsible for framing such financial statements and reports in adherence with the relevant GAAP. They will be responsible for preparing Income Statement, balance sheet, cash flow statement and other related bookkeeping techniques. It's very important for the organization to ensure accuracy in the preparation of financials as it helps external parties such as investors, creditors, regulatory authorities, etc. to make informed decision with regards to investment, tax liabilities, providing credit.

4. Performance Evaluation and Decision Support:

An organization's performance is evaluated by looking at their reported financial statements. True and fair financial report helps in evaluating performance. Financial analyst, investors and other by using various techniques such as analysis of ratios, time series analysis, cross-sectional analysis evaluate an organizations performance. Internal parties such as executives can also find area of improvements, and prepare a strategic plan for product pricing and resource allocation.

5. Budgeting and Forecasting:

Effective budgeting and forecasting are essential for planning and controlling operations in a manufacturing company. Accountants prepare a budget for various activities such as marketing, administration, research, and development and by analyzing such expenses they try to forecast expected revenue, sales volume and profitability. Executives at the end of the year can analyze real performance with the forecasted performance and try to find reasons behind the differences between both, if any and form strategies to counter the same. Accurate budgeting and forecasting also support long-term strategic planning and decision-making.

6. Tax Planning and Compliance:

Every organization is subject to regulatory compliance and taxation. Accountants are needed in order to understand the tax liability that would be generated to be prepared to pay such taxes on time. Other than taxation, there are other regulatory compliance needs which they need to fulfill. They prove beneficial in finding tax saving opportunities, minimizing tax liabilities and also in adhering with laws related to taxation to avoid penalties and sanctions.

7. Internal Controls and Risk Management:

Manufacturing organization has very complex operations and significant amount of assets in working. They are subject to various risk such as political risk, economical risk, interest rate risk, risk of temporary shutdown, malfunction of machinery and many more. It is very essential to have a team to ensure risk management and to keep internal controls in check in order to ensure smooth functioning and providing accurate and reliable financial information with respect to operational and financial risk, also suggesting measures to mitigate the same.

8. Project and Capital Expenditure Analysis:

Manufacturing business is a capital extensive business model and undertakes frequent and various capital projects such as purchase of new equipment, advancement in technology,

acquisition of a plant, etc. which requires detail analysis. Accountants by the means of NPV and IRR calculations tries to find the financial feasibility of the project and the returns that would be generated. All this information is essential in order to make informed decisions with regards to capital investment.

Problem Solving:

Variable Costing approach:

Swipes 50 Ltd.

Profit & Loss account for the month of February.

Particulars	Amount	Amount
Sales		2,53,000
Less: Variable Cost		
Direct Materials	29,000	
Direct Labor	19,000	
Variable Production overhead	7,300	
Cost of Goods Produced	55,300	
Add: Opening Stock	0	
Less: Closing Stock	(4,424)	
Total Variable Cost	50,876	(50,876)
Contribution		2,02,124
Less: Fixed Overheads		
Total S&A Expenses	44,500	
Fixed Production Overhead	28,600	
Total Fixed Overheads	73,100	(73,100)
Profit		1,29,024

Swipes 50 Ltd.

Profit & Loss Account for the month of March.

Particulars	Amount	Amount
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Sales		3,41,000
Less: Variable Cost		
Direct Materials	33,250	
Direct Labor	22,000	
Variable Production overhead	8,500	
Cost of Goods Produced	63,750	
Add: Opening Stock	4,424	
Less: Closing Stock	(0)	
Total Variable Cost	68,174	(68,174)
Contribution		2,72,826
Less: Fixed Overheads		
Total S&A Expenses	57,100	
Fixed Production Overhead	28,600	
Total Fixed Overheads	85,700	(85,700)
Profit		1,87,126

Absorption Approach:

Swipes 50 Ltd.

Profit & loss Account for the month of February.

Particulars	Amount	Amount
Sales		2,53,000
Less: Production Cost		
Direct Materials	29,000	
Direct Labor	19,000	
Variable Production overhead	7,300	
Fixed Production Overheads	28,600	
Cost of Goods Produced	83,900	
Add: Opening Stock	0	
Less: Closing Stock	(6712)	
Cost of Goods Sold	77,188	
Less: Period Cost		
Total S&A Expenses	44,500	

Total Cost	1,21,688	
Profit		131,312

Swipes 50 Ltd.

Profit & loss Account for the month of March.

Particulars	Amount	Amount
Sales		3,41,000
Less: Production Cost		
Direct Materials	33,250	
Direct Labor	22,000	
Variable Production overhead	8,500	
Fixed Production Overheads	28,600	
Cost of Goods Produced	92,350	
Add: Opening Stock	6712	
Less: Closing Stock	(0)	
Cost of Goods Sold	99,062	
Less: Period Cost		
Total S&A Expenses	57,100	
Total Cost	1,56,162	
Profit		1,84,838

Reconciliation of Profit:

50 Swipes Ltd.

Reconciliation Statement - For Months

Particulars	February	March
Profit as per absorption costing	1,31,312	1,84,838
Less: Fixed Overheads in closing Inventory	(2,288)	-
Add: Fixed Overheads in Opening Inventory	-	2,288
Profit as per Marginal Costing	1,29,024	1,87,126

Possible Improvements in Accounting Systems:

1. Implement Cloud-Based Accounting Software:

Technology has improved a lot in recent times. Every possible thing is digitally available and efficiently stored. Swipe 50 Ltd, can look out at cloud-based accounting software as a viable option which will help in enhancing efficiency, accessibility and real time data management. It also reduces investment in on premise hardware and software installation as cloud-based software are cost and space effective. Additionally, it offers the following advantages as well:

- a. **Accessibility:** Cloud-based software is digitally available, resulting in an individual with internet connectivity to access data from anywhere and work on the same remotely. Organizations with global reach and teams located at distinct part of the world should adapt to cloud-based software in order to achieve collaboration and real – time data sharing.
- b. **Automatic Updates:** Software providers regularly bring updates into the system to ensure safety and security of data, new features to ease the job at minimal cost.
- c. **Scalability:** Capacity of cloud platform can be increased as per the requirement in no amount of time and at very cost-effective manner in comparison with traditional practices.
- d. **Data Security:** One of the key measures the software providers work on to is data security. They implement various security checks such as end-to-end encryption, multi-factor authentication and regular backups to protect and secure sensitive and confidential financial data.

2. Implement Robotic Process Automation (RPA):

Robotic Process Automation is one of the emerging technologies through which repetitive and rule-based task can be easily completed by robots with more accuracy and speed. Activities like data entry, invoice generation, reconciliations, report generation etc. can be achieved without manual labor, reducing cost, and increasing efficiency.

- a. **Reduce Manual Errors:** Humans tend to make technical or conceptual error; RPA eliminates such errors and ensures enhanced accuracy and reliability of financial data.
- b. **Enhance Productivity:** RPA helps to focus on key managerial jobs where detail analysis and creative thinking is required such as strategy formation, financial analysis, etc. by

reducing workload of doing repetitive rule-based tasks, enhancing productivity in the core high value activities.

c. Accelerate Processes: Technology such as RPA can work faster and with accuracy than human mind and body, resulting and accelerate process.

3. Harnessing the Power of Data Analytics and Business Intelligence for Enhanced Financial Management

In today's data-driven world, leveraging data analytics and business intelligence (BI) tools is no longer a luxury but a necessity for effective financial management. By harnessing the power of platforms like Power BI and Python, organizations can unlock a wealth of valuable insights, transforming raw data into actionable intelligence.

- a. **Gaining Real-Time Visibility:** Data analytics and BI tools provide managers with a clear and concise view of financial data through intuitive visualizations like charts and graphs. This visual representation facilitates a deeper understanding of trends, past patterns, and key performance indicators (KPIs), enabling managers to make informed decisions based on real-time insights. For example, visualizing revenue trends over time can reveal seasonal fluctuations, allowing managers to proactively adjust pricing strategies or marketing campaigns.
- b. **Improving Financial Reporting:** The ability to present complex financial data in a readily understandable format is crucial for effective communication. Data analytics and BI tools empower organizations to create compelling and insightful reports, simplifying complex financial information for stakeholders such as investors, creditors, and board members. This enhanced transparency fosters trust and facilitates more informed decision-making.
- c. **Identifying Anomalies and Mitigating Risks:** Analyzing vast datasets manually is time-consuming and prone to error. Data analytics and BI tools automate this process, enabling organizations to quickly identify anomalies and potential risks within their financial data. By analyzing historical trends and patterns, managers can proactively identify potential areas of concern and develop strategies to mitigate these risks. This proactive approach helps to prevent financial losses and ensure the organization's financial stability.

Conclusion:

As we studied the managerial accounting throughout this report it became evident that it's a very useful and decision supporting discipline helping organization to strategies their growth and success. We were able to understand the importance of managerial accounting jobs in order to drive organization and its operations. Various activities such as inventory valuation, cost management, tax planning, financial reporting are sustained because of the presence of managerial accountants. They don't just do clerical and routine work that can be done by robots but they perform intricate duties of analyzing and identify areas of improvements to stay competitive and relevant.

At the heart of the managerial accounting is the choice between two approaches variable costing approach and absorption costing approach which depends on the objectives of the organization. Where variable costing approach which only considers variable costs as product cost it helps in formulating short-term plans and goals. Whereas absorption costing considers all the production related costs, fixed or variable as production cost helps in formulating long term growth and sustainability. The major purpose of variable costing is to communicate information to the internal stakeholders, whereas absorption costing communicates information to external parties by complying with GAAP standards. We understood the practical application of both the approaches through a problem solved, that helps us understand better the key difference.

While the net operating income differed between the two methods in our problem, this arose because of expensing fixed production overhead cost at different times during reporting. The marginal costing approach didn't consider it the cost of goods produced resulting in lower per unit cost of product which made a difference in valuation of closing inventory. Whereas we saw that absorption costing approach included the same in cost of goods sold which increased per unit cost of production making a difference in valuation of closing inventory. The following differences were more precisely understood by going through the reconciliation statement.

However, the choice between the two approach depends upon organizations objective. Experienced managers need to make a smart choice between both the choices. They need to consider the tradeoff between both the approaches and select that best suits their goals considering its short term requirements, long term planning and external reporting.

Through this report it was understood that managerial accounting is far beyond just cost analysis and profitability computing. It scopes reaches to strategic planning, capital budgeting and investment appraisal. Accountants contributes by conducting feasibility studies, return potentials of a project, and impact of the same on the strategic plan of an organization. They conduct feasibility testing and return calculation by their knowledge of NPV, IRR, payback period and other capital budgeting process in order to make sound capital investment decision. They are able to evaluate and find projects with highest possible value creation with the help of limited available resources.

Also managerial accounting has evolved itself in this rapidly advancing business environment by considering broader metrics that are beyond just traditional financial reporting. It has made organizations realized the importance of non-financial factors along with financial factors in the decision making process. They have begun to take in to consideration CSR activities, employee satisfaction, sustainability and environment concerns in their decision making process. This makes organization aware of other stakeholders as well beside investors and credit providers but also third parties who are indirectly affected from their operations,

In conclusion, managerial accounting has broader objectives to offer. It equips organizations with tools and knowledge essential to achieve organizational goals by keeping every possible stakeholder internal or external into considerations in this highly competitive business environment with new innovation every minute.

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