COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialisation:	MBA International Business
Affiliated Center:	CEO business school
Module Code & Module Title:	MGT510:MANAGERIAL ACCOUNTING
Student's Full Name:	khodor mohamad houssein
Student ID:	EIU2020904
Word Count:	3936
Date of Submission:	06-09-2022

I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.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

DATE: 19-09-2022

Table of Contents

Introduction:

Management accounting arose during the industrial revolution, at the end of the nineteenth century and the beginning of the twentieth century, and we find that the tasks of the management accountant are mainly and clearly represented in the processes of risk management, registration processes, strategy development, control, planning and decision-making, as well as assistance in the selection of investments. Therefore, it is clear that when making the process of making decisions related to work in an informed and sound manner, it is necessary for us to use the concepts of management accounting, which must be focused on by the internal users because of their responsibility related to making internal decisions such as production managers, sales managers and executives.

It is necessary to constantly search for all ways that lead to financial intelligence, and it is necessary to work on expanding the financial methods that are used and to identify them in a way that helps increase creativity. Successful leadership is the one that works to enhance its skills and talents.

During the period dominated by the presence of rapid competition and technological changes, the importance of developing the traditional accounting system has been reached. Where the accounting function appears in providing the financial interpretation of the organization's transactions, as well as providing the main financial reports such as the balance sheet, income statement, liquidity statement, as well as profit and loss statement.

Financial reports should be understandable to everyone and easy to read by everyone within the company when they look at them. These reports must provide many things, the most important of which are reports on the cost estimates of current products, budgets for new production lines, and reports on profits and losses, so all these reports do not represent any value in the event that terms are used that only accountants understand.

The true meaning of business success within any company, whose main goal is to achieve profitability and to be able to measure this profitability. Hence the importance of the role of the cost accountant, who distinguishes between fixed costs and manufacturing costs. Manufacturing costs are all costs associated with production processes such as indirect manufacturing expenses in addition to expenses related to production processes and expenses related to direct labor and direct materials. Fixed costs are costs that are not related to manufacturing operations.

The processes of converting data into information is the responsibility of management accounting "cost accounting", where its importance is manifested in knowing all the information related to and affecting the achievement of profit and loss, as well as efficiency. Cost accounting is responsible when buying or producing something when dealing with the evaluation and calculation of costs and expenses. The strategic decision-making process depends mainly on cost data.

Undoubtedly, accounting functions are of great importance to the manufacturing process because of the assistance they provide in estimating cash flows and the decision-making process. Moreover, the process of developing accounting systems has a major role in implementing economic and commercial decisions effectively and efficiently. These systems contain the processes used by the company in order to obtain accurate and correct information. This information facilitates the management of the decision-making process, whether the decision is at the operational or strategic level.

Profit Statements using Absorption Costing for February and March

Sales (11,500 Units)			€ 253,000
Less Cost of Goods (COG) Sold			
Beginning Inventory (0 Units)	€ 0		
Add COG Manufactured (12,500 Units)	€ 79,500		
COG Available for Sale (12,500 Units)		€ 79,500	
Less Closing Inventory (1,000 Units x Euro 6.36ea)		-€ 6,360	
		€ 73,140	-€ 73,140
Gross Profit			€ 179,860
Less Selling & Administration Expenses			
Fixed Selling & Administrative Expenses	€ 36,225		
Variable Selling & Administrative Expenses	€ 8,275		
			-€ 44,500
Net Profit for February (Using Absorption Costing)			€ 135,360

Sales (15,500 Units)			€ 341,000
Less Cost of Goods (COG) Sold			
Beginning Inventory (1,000 Units)	€ 6,360		
Add COG Manufactured (14,500 Units)	€ 87,350		
COG Available for Sale (15,500 Units)		€ 93,710	
Less Closing Inventory (0 Units)		€ 0	
		€ 93,710	-€ 93,710
Gross Profit			€ 247,290
Less Selling & Administration Expenses			
Fixed Selling & Administrative Expenses	€ 48,825		
Variable Selling & Administrative Expenses	€ 8,275		
			-€ 57,100
Net Profit for March (Using Absorption Costing)			€ 190,190

Profit Statements using Variable Costing for February and March

Sales (11,500 Units)			€ 253,000
Less Variable Cost of Goods (COG) Sold			
Beginning Inventory (0 Units)	€ 0		
Add Variable COG Manufactured (12,500 Units)	€ 50,900		
Variable COG Available for Sale (12,500 Units)		€ 50,900	
Less Closing Inventory (1,000 Units x Euro 4.072ea)		-€ 4,072	
		€ 46,828	-€ 46,828
Variable Manufacturing Margin			€ 206,172
Less Variable Selling & Administration Expenses		€ 36,225	-€ 36,225
Contribution Margin			€ 169,947
Less Fixed Expenses			
Fixed Selling & Administrative Expenses	€ 8,275		
Fixed Production Overheads	€ 28,600		
	€ 36,875		-€ 36,875
Net Profit for February (Using Absorption Costing)			€ 133,072

Sales (15,500 Units)			€ 341,000
Less Variable Cost of Goods (COG) Sold			
Beginning Inventory (0 Units)	€ 4,072		
Add Variable COG Manufactured (12,500 Units)	€ 58,750		
Variable COG Available for Sale (12,500 Units)		€ 62,822	
Less Closing Inventory (0 Units)		€ 0	
		€ 62,822	-€ 62,822
Variable Manufacturing Margin			€ 278,178
Less Variable Selling & Administration Expenses		€ 48,825	-€ 48,825
Contribution Margin			€ 229,353
Less Fixed Expenses			
Fixed Selling & Administrative Expenses	€ 8,275		
Fixed Production Overheads	€ 28,600		
	€ 36,875		-€ 36,875
Net Profit for March (Using Variable Costing)			€ 192,478

Profit Reconciliation Statement calculated

	February	March
Net Income using Absorption Costing	€ 135,360	€ 190,190
Less Fixed Manufacturing Overheads carried forward (Closing Inventory)	-€ 2,288	
Add Fixed Manufacturing Overheads brought forward (Beginning Inventory)		€ 2,288
Net Income using Variable Costing	€ 133,072	€ 192,478

Explanation and differentiation between each method of calculating costs.

At the outset, we know what is meant by management accounting, which is known as cost accounting, and if we discuss its definition, it is a process of analyzing costs for operations and business in order to present and prepare financial reports that support the administrative decision-maker in achieving strategic goals, and it must be noted that these reports are internal, so they are not used or viewed. of individuals outside the company.

Management accounting is effective in planning and forecasting, especially in the long-term, and its importance in creating budgets within companies is evident. Therefore, management accounting plays a key role in enabling management to make sound financial choices in the long and short term. The records you provide are invaluable, especially when formulating effective decisions.

Absorption costing and variable costing are two methods of managerial accounting, each with its own advantages and disadvantages. But according to GAAP accounting principles, it allows absorption costing for the company's external reports while allowing the company to use variable cost or absorption costing in profit reports and profit determination.

To compare both the two methods, we have to address the importance and meaning of fixed overheads, through which we can understand the difference between variable cost and absorption costing. Fixed overheads are defined as fixed things that do not change regardless of production levels, and they include items such as employee salaries, rent, equipment rental fees, and insurance. These expenses continue regardless of production outputs or sales volume.

In the next section, a comparison is made between both methods. First we will look at absorption costing and then the variable cost will be highlighted.

Absorption costing is the simplified name for the concept of absorption costing, a technique in which the calculation is established on a cost-per-unit basis where a portion of "overhead" fixed expenses is applied to the cost of manufacturing products. During the reporting period, the cost basis of the unit is calculated by dividing the total fixed costs by the number of units that were produced and sold, and the final result is the cost of the unit actually produced and sold. The absorption method allocates fixed costs to all units produced during an accounting period. This type of costing is known as full costing and it deals with costs related to all components of manufacturing such as direct labour, direct materials, fixed overheads and variable overheads in accordance with GAAP principles.

Costing method helps in determining unit cost by allocating fixed overhead costs across the units manufactured. This results in two types of fixed overhead costs, inventory costs and costs of goods sold. The main importance for companies to use absorption costing is to be able to develop pricing policy appropriately that includes variable and fixed manufacturing costs. Pricing is based on all costs related to the production process. Also, all marketing and sales expenses are recorded during the same period in order to accurately determine profitability, although there are drawbacks associated with this method, which are some costs that should not be included in the cost of the product or inventory because they have no future connection.

The absorption costing method favorably provides an advantage when goods in inventory during the reporting period expire and are not sold. Each item in the inventory has a value that contains a portion of the fixed overheads. Accordingly, the product is not reported or recorded as an expense until it is removed from the stock when the sale process is completed.

Some companies prefer this because it allows to improve profits for a particular reporting period. But this method has a negative effect as it is possible to artificially inflate the amount of profitability within a certain period. This is when the fixed overheads are not fully deducted in the event that all manufactured products are not sold or completed or only part of them sold, this is considered misleading for the reporting period when doing profitability analysis.

In contrast to calculating absorption costing, we find that variable cost accounts for fixed overheads in a lump sum rather than per unit account. Based on the costing method here, all variable costs are calculated, including production process supplies such as packaging, raw materials and freight, where the full cost of fixed overheads during the reporting period is added. Expenses are subtracted from the amount of revenue, so these expenses are not added to each unit on the basis of its sale.

Variable cost includes everything incurred in the production process only. This type of costing includes variable production costs for inventory valuation and the cost of products.

All fixed overhead costs are consolidated into a single account unlike absorption costing and reported on the balance sheet within a single line item. The main advantage of using variable costing rather than absorption costing is that it determines the significant costs that have been incurred in developing a service or product. This type of costing develops the income statement by contributing to obtaining the best information for the CVP analysis, where absorption costing does not help in conducting this analysis.

Therefore, we find that the variable cost of earnings appears after all expenses are paid in the reporting period. Where the company must account for all expenses related to production even if no sales return was achieved from the goods that were produced during the reporting period. In the end, when the goods are sold and out of stock, the company reports only income, without reporting expenses in return.

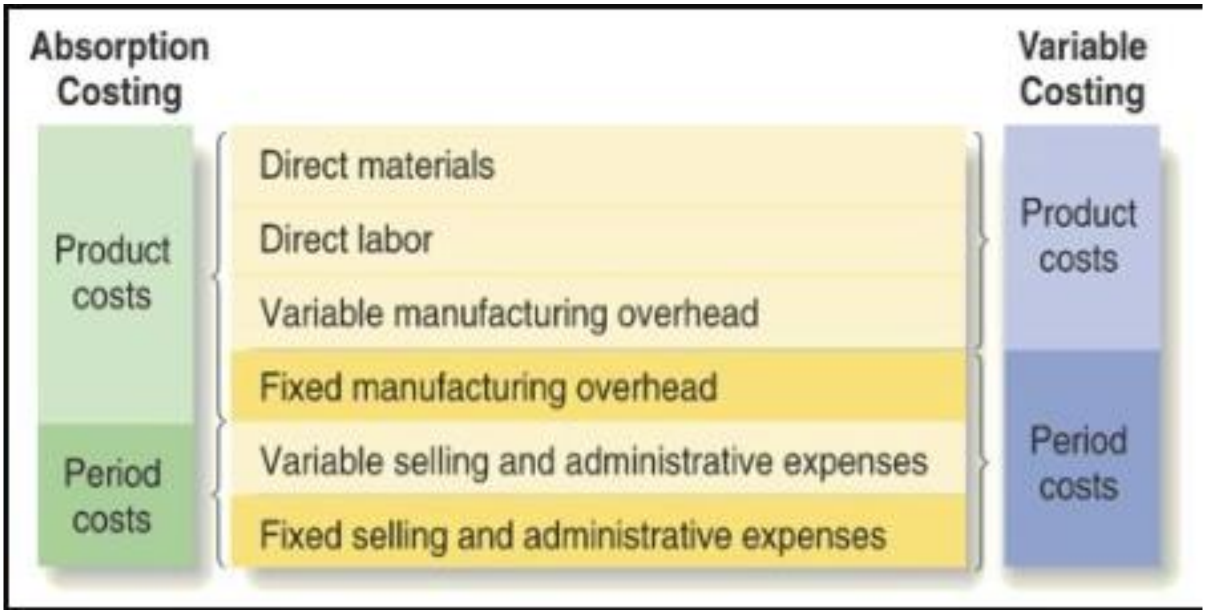
When we are exposed to the defects of the variable cost, a payment is shown for all fixed overheads during the reporting period, even in the absence of sales of products. A portion of the full cost of fixed expenses must also be deducted, or this means that less profit appears during the reporting period, where income appears low due to products. unsold. Here you need to highlight all your overheads in all cases, whether in the absence of products or the presence of a part of them.

In conclusion, variable costing cannot be included as a GAAP method although it does include more expenses. Where the rules stipulate that all expenses and revenues related to the same reporting period must be recorded. We also find that what makes variable cost unusable for external reporting is that it is not allocated to fixed manufacturing expenses. The use of variable costing is limited as a tool to improve the effectiveness of business operation and decision-making.

Despite this, we find that business managers when conducting break-even analysis largely rely on the use of variable cost, as well as when determining the contribution margin and while making decisions and improving operating efficiency. Through the basis of analyzing the characteristics of each of the costing methods applied by the companies, it can be determined in the variable cost those companies that participate in the manufacture of production lines. This is because it helps to accurately determine the profits that have been achieved for each production line.

On the other hand, companies that develop a single production line have to use absorption costing in order to be able to determine the exact price level for each unit produced. As all costs are absorbed by the manufactured products by estimating the absorption cost. We find that, according to the matching principle, which stipulates that all expenses and revenues related to the same accounting period must be recognized, accounting standards do not allow companies to use absorption costing because the variable cost contradicts the matching principle.

Basis	Absorption costing	Variable costing
i. Treatment of fixed overhead	Fixed manufacturing expenses are treated as *product cost*.	Fixed manufacturing expenses are treated as *period cost*.
ii. Difference in valuation of stock	Values stock at total production cost. i.e. fixed plus variable cost, hence value of closing will be high.	Stock are valued at Variable cost only, hence value of closing stock will be low
iii. Contribution	Absorption costing calculate *Net profit*.	Variable costing calculate *Contribution.*
iv. Reporting purpose	Absorption costing is mostly for *external* reporting and taxable income computation.	Variable costing is mainly use for *internal* reporting.



Three Ways that Swipe 50 Limited could improve its Accounting Systems

Management accounting is an effective method of control that detects discrepancies by comparing budgeted results with actual results. It helps managers make decisions and plan by providing them with performance data. All this makes management accounting an important tool for planning resources in the long term, and it also has the ability to focus on current results, so it is an effective tool for controlling and controlling resources.

Therefore, management accounting as a method for measuring performance is an invaluable tool for decision makers that works to ensure the profitability and success of manufacturing. Therefore, the company has to introduce a strict management system to control all expenses and costs and ensure proper accounting.

Swipes 50 Limited has implemented the basics of management accounting system in a relatively simple way, but management needs more detailed and more effective data to use in making critical strategic decisions. The more detailed information, the more it improves the performance of the accounting system. In the following, three important ways are presented, in which I believe, that we can improve the management accounting system.

1- Budget Reporting

The management accounting system is not a short-term process or just a one-time procedure. The importance of budget preparation, “forecasting” and planning cannot be overlooked, and the importance of the control process through management accounting cannot be completely underestimated.

The process of budgeting “forecasting” in some way provides the basis for business success where everything is evaluated and measured through it, so as part of the organizational framework for management accounting, it needs this basis as part of its organizational framework which is used for (setting strategic plans - evaluation Departmental performance - help reduce and reduce future uncertainty - eliminate discrepancies - create more plans to control effectively in the future)

Budgeting is an inseparable and integral part of an effective management accounting system. It is extremely important to achieve business objectives. By controlling the additional costs and potential waste that are borne during the year specified in the budget, it is used to achieve the targeted profits as well as by focusing on quality. The budget, in turn, allocates costs for all activities that will help achieve the strategic goals of the business within the company. It can also play an important role in setting the main performance indicators for the departments as a whole, including managers and employees.

The budget formulation process "forecasting" provides an opportunity for all departments within the company to contribute to the business vision and make recommendations. Therefore, the budget must be well planned and correctly indicate the responsibilities and duties of each employee. The budget, in turn, improves the management accounting system, as it is one of the important aspects of the mechanisms of internal control systems for companies, and it can be used in the processes of comparison between the budgeted results and the actual results in order to calculate any existing discrepancies. Budgeting "Forecasting" provides very useful feedback to management, which in turn reduces or eliminates variances, which in turn increases profitability and improves business.

2- More of Managerial Accounting techniques

There are many techniques for management accounting that can be implemented in order to help integrate the financial performance of the business and the performance of management. Regardless of the presence of both the absorption and variable costing, we find such techniques as marginal costing, standard costing, cash flow management and cost profit. These technologies help Swipes 50 Limited in the process of evaluating different aspects of cost information and thus be able to integrate the financial performance of the business with the resulting data. The cost volume profit analysis alerts the number of units to be sold in order to achieve the target profit, because it provides valuable and important information about the break-even point of the manufacturing unit.

3- Activity-based costing

From the infographic of Swipes 50 Limited it is clear that the company manufactures one product and therefore all costs "overheads" must be applied directly to the production of that product. This does not negate the existence of some overhead costs that are not related to the product.

When implementing an activity-based cost management system, the process of separating the cost of each department will be carried out, and only the overhead costs related to this product will be added. This helps to separate or reduce both non-value-added costs and value-added costs from the total overhead costs. This technique will lead to the reduction or elimination of non-value-added activities and thus lead to an increase in the overall profitability of the company. In addition, you will provide information that can be used for the purpose of calculating the exact profitability of each new product that the company may manufacture.

Activity-based costing is the most reliable and accurate method because it allocates the cost when compared to absorption costing. We find that absorption costing deals with the full amount of manufacturing. It takes the overheads and distributes these expenses to all production quantities for all products combined. Therefore, the use of the activity-based costing system will provide a quick, accurate and easy solution also when there are some products that used only some of the overhead costs compared to the products. the other. In the end, the absorption method of costing is superior to the activity-based costing system because it determines the overhead costs of the correct product.

Importance of Managerial accounting jobs in a Manufacturing Company

The management accountant has a very important role within institutions, especially industrial ones, because it covers the entire company, so we find that his job includes the process of collecting data through several work units throughout the organization and he is responsible for recording and reporting those data. One of his duties is also to analyze budgets and monitor forecasts, which in turn makes him responsible for understanding funding and giving recommendations for it. This last section includes the cost estimation process for labor, raw materials, production, marketing, sales, propaganda, advertising, and internal operating costs for companies

In addition to these tasks, the management accountant is entrusted with conducting comprehensive analyzes of the company's working capital and the availability of funds, so it is necessary to coordinate with all relevant business units in order to conduct this analysis, which in turn then communicates all the information to decision makers from the senior management and the board of directors. Administration. Therefore, the management accountant is the main reliable source of the information required by the executive managers and by them the managers in the assigned departments who use that information in the decision-making process.

Within the decision-making process, the management accountant's role and responsibility is the input, which is his responsibility to track the internal costs of any business process, which would support and help the company's management in making decisions related to operation, production, as well as investments. Companies always have an urgent need to have a management accountant in order to be able to understand the cost of the operations of their activities and determine the efficiency of their budget and then decide how to allocate funds accordingly in sales, production and investment.

Thus, the role of the management accountant within the company is closely linked to its success, as his role and responsibility is so huge that reducing any action plan on the part of the management accountant or having an individual miscalculation on his part would endanger the company's future. The management accountant seeks to ensure continuous compliance by imposing procedures for acceptable accounting practices and internal cost estimation procedures.

When the administration conducts the planning process, the timing factor is an important factor when making all plans, so we find a close link between the management accountant's job and time. The management accountant needs to make budgets, forecasts and a report during a certain period so that he can implement them without delay and quickly, especially when needed. There is an urgent need for timely forecasting, especially when dealing with market volatility. When approving the budget, it must be in accordance with the available working capital, as well as the process of facing and dealing with market risks. Therefore, it is noted that a necessary and great degree of accuracy must be required when the management accountant performs the process of reporting information, so he must ensure the accuracy of all the information he has collected in order to provide it to support the decision-making process correctly that serves the company's strategic goals and plans.

In the end, the management accountant, by virtue of his responsibilities and job duties, must be aware of everything, even the external influences that directly affect the company's performance of its work, such as the political situation that affects the market as well as its huge operation and all the exposures that the company faces within the market, the cost of raw materials, the cost of labor and competition The internal operations and coordination between the various departments internally for the company, as well as the company's interaction with the rest of the business world, so that they can inform the management in advance of the picture that enables it to take financial decisions in light of the requirements and available funds. Within manufacturing companies and due to their complexity, the management accountant has a very important role within them.

Conclusion:

A study was presented on the company Swipe 50 Limited, which is improving its production process, where the cost arising from the activities as well as the income were dealt with, so the focus was on the cost of the product. The impact of both variable cost and absorption cost on the company’s profits was discussed, based on what was reported from the sales report for the months of March and February. A financial study was conducted in both ways, namely variable cost and absorption cost, and a comparison was made between them to determine the strengths and weaknesses, and to explain each method and the return from them. And their importance, as well as the impact of both on the decision-making process. 3 proposed methods were presented aimed at raising the company's accounting efficiency and contributing to increasing accounting discipline. We discussed the importance of management accounting and its direct impact on the profitability of industrial companies and the senior management's decision-making.

References

- Heisinger, K. (2009). Essentials of Managerial Accounting. Boston: Cengage Learning.
- Mowen, M. M., Hansen, D. R., & Heitger, D. R. (2011). Cornerstones of Managerial Accounting. Boston: Cengage Learning.
- M.A., S. (n.d.). Management Accounting:Principles and Practice. Noida: Vikas Publishing House.
- Periasamy. (2009). Financial Management. Noida: McGraw-Hill Education (India) Pvt Limited.
- Ghosh P.T. (2009). Financial Accounting for Managers. Hyderabad: Taxmann Publications.
- Kulkarni M., Mahajan S. (2018). Management Accounting.Pune: Nirali Prakashan
- Patankar Dr. B.S.(2019).Managerial Accounting. Pune: Nirali Prakashan
- Walther, Dr. L.M. (2010). Financial Accounting: Principles of Accounting.com. Scotts Valley: On-Demand Publishing.
- Inamdar, S.M. (1991). Cost & Management Accounting. Pune: Everest Publishing House.
- Noreen, E.W., Brewer, P.C., Garrison, R.H. (2016). Managerial Accounting for Managers 4thEd. New York City: McGraw-Hill Education.
- Saxena, V.K., Vashist, C.D. (2015).Advanced Cost & Management Accounting. New Delhi: Sultan Chand & Sons.
- Warren, C.S., Jones, J.P., Tayler, W.B. (2019). Financial and Managerial Accounting 15thEd. Boston: Cengage Learning.