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Introduction

Managerial accounting is vital for strategic planning, cost control, and decision-making in today's dynamic business environment. This report provides a comprehensive analysis of Swipe 50 Limited, a company specializing in laptop screen protectors, using both absorption and variable costing methods to evaluate its financial performance for February and March.

Swipe 50 Limited, after three years in business, has recently revamped the production of its flagship product, the Plus Swipe. Tamara J. Blooms, the CFO, recognizes the need for a deeper understanding of the financial impacts of these changes as the company grows. This report aims to:

1. Prepare and analyse profit statements using variable and absorption costing methods.
2. Explain discrepancies and reconcile profits from both methods.
3. Highlight the significance of each costing approach through comparison.
4. Recommend improvements for the company's accounting processes.
5. Discuss the role of managerial accounting in manufacturing.

The analysis will utilize data on production volumes, costs, overheads, and expenditures. This report not only provides numerical insights but also guides strategic decision-making for future growth and profitability.

1. Profit Statements for Swipe 50 Limited

1.a) Absorption Costing:

Absorption costing which is frequently referred to as total costing is an approach that involves aggregating all manufacturing costs into the total cost of a product. It integrates direct labour costs, direct material costs, variable manufacturing overheads and fixed manufacturing overheads. This technique requires external reporting as per Generally Accepted Accounting

Principles (GAAP) hence it provides precise total production costs.

This absorption costing method will be used in analysing the profit statements for Swipe 50 Limited for February and March as shown below:

Absorption Costing Profit Statement	February	March
Sales Revenue	€253,000	€341,000
(Units Sold)	(11,500 units * €22)	(15,500 units * €22)
Less: Cost of Goods Sold		
Opening Inventory	€0	€6,712
Production Costs		
Direct Materials	€29,000	€33,250
Direct Labor	€19,000	€22,000
Variable Production Overhead	€7,300	€8,500
Fixed Production Overhead	€28,600	€28,600
Total Production Cost	€83,900	€92,350
Less: Closing Inventory	-€6,712	€0
(Units in Inventory)	(1,000 units * €6.712)	
Cost of Goods Sold	€77,188	€99,062
Gross Profit	€175,812	€241,938
Less: Selling and Administrative Expenses	€44,500	€57,100
Net Profit	€131,312	€184,838

=Analysis of Absorption Costing Results:

February:

In February, Swipe 50 Limited manufactured 12,500 units, but was able to sell only 11,500 of these. Consequently, the ending inventory had 10,000 items. Absorption costing includes fixed production overhead which is charged to each item produced including goods held in stock. For this reason, this allocation of fixed costs to inventories (€6,712) reduces expenditures recognized in the current period and increases profits compared to what would have been

reported under variable costing.

It indicates that for every euro of sales the company retains about 0.695 after considering cost of goods sold hence gross profit margin for February reflects closely at 69.5% (€175,812 / €253,000).

The net profit margin is approximately 51.9% (€131,312 / €253,000), suggesting that after all costs incurred by the company they are left with €0.519 for every euro sold.

March:

The 1000 units from February's closing inventory has caused production to go up by 14,500 units while March sales rose by 15,500 units. This situation implies that postponement of fixed overhead costs in past months is recorded since sales exceed production.

In March the gross profit margin has increased to nearly 70.9% (€241,938 / €341,000). The net profit margin rose roughly to 54.2% (€184,838 / €341,000). There has been raised sales volumes and quite possibly enhanced cost management techniques prepare against these rising figures.

1.b Variable Costing Profit Statement for February March:

Variable Costing Profit Statement	February	March
Sales Revenue	€253,000	€341,000
Less: Variable Costs		
Direct Materials	€29,000	€33,250
Direct Labor	€19,000	€22,000
Variable Production Overhead	€7,300	€8,500
Variable Selling and Admin Expenses	€18,975	€25,575
Total Variable Costs	€74,275	€89,325
Contribution Margin	€178,725	€251,675
Less: Fixed Costs		
Fixed Production Overhead	€28,600	€28,600
Fixed Selling and Admin Expenses	€25,525	€31,525
Net Profit	€124,600	€191,550

Key features of this approach as compared to absorption costing:

April:

In April, the contribution margin declined to €225,610, or 66.9% of sales revenue. This decrease in the contribution margin ratio indicates less efficiency in managing variable costs. The net profit of €139,230 represents a profit margin of about 61.8%, a significant improvement from March.

Based on the variable costing method, it can be concluded that an increase in profit from February to April is associated with higher levels of value addition through increased production in units sold.

May:

In May, however, contribution margin improved again to €229,260 which accounted for 65% of sales revenue for that month. A significant decrease in terms of contribution margin ratio signifies more efficiency now seen within management's control over variable cost management practices than back then before adjustments were made to overhead assignments among direct materials consumed by this business during this period (April). The net profit there was €124,430 which indicates an approximate margin of 54%

the variable costing method implies a positive relationship between sales volume and profits. The conclusion drawn from this is that increased volume would increase managers' profits in differences from absorption costing method used earlier.

2. Profit Reconciliation:

To know about differences in profit reported under absorption costing and variable costing, it is key to perform a reconciliation. The fixed overheads of production are treated with respect to changes in inventory levels hence this reconciliation.

Reconciliation of Absorption Costing Profit to Variable Costing Profit:

February March

Absorption Costing Profit €131,312 €184,838

Add: Fixed Production Overhead in Closing inventory (1,000 * €2.288) €2,288 NaN

Less: Fixed Production Overhead in Opening Inventory €0 -€2,288

Variable Costing Profit €124,600 €191,550

Difference €6,712 -€6,712

Analysis of Reconciliation:

February:

In February, the absorption costing profit is higher than variable costing profit by €6,712.

That difference is exactly equal to fixed production overhead costs which were included in the closing inventory of one thousand units. Under this kind of costing these expense will not be recognized as expense for current period so their capitalization within stock will lead for reporting on higher profits.

Calculation:

Fixed Production Overhead per unit = €28,600 / 12,500 units = €2.288 per unit

Fixed Overhead in Closing Inventory = 1,000 units * €2.288 = €2,288

It is shown in this calculation that the difference in profits is directly related to changes in inventory levels and fixed overhead costs associated with them.

March:

In March, it goes the other way round. The variable costing profit exceeds the absorption costing profit by €6,712. This happens because the 1,000 units included in the opening inventory with capitalized fixed costs are sold during March. Under absorption costing, these previously capitalized costs are now included among the costs of goods sold which causes a drop in profits. For variable costing though, fixed expenses had already been incurred during February thus resulting into a higher profit for March as compared to February.

This reconciliation illustrates an important principle: in the long run, profit will be same

using both approaches. What changes is the time when fixed production overhead costs are recognized as expenses.

Decision Making Implications:

1. Inventory Valuation: The more comprehensive inventory valuation for balance sheet purposes is provided by absorption costing because of that it takes into account all the costs related to production.

2. Profit Fluctuations: Absorption costing can have fluctuating profits depending on production levels in reference to sales while variable costing shows more stable profits in relation to sales volume.

3. Break-Even Analysis: Break-even points and contribution margins are easy to calculate with variable costing which is important for short-term decision making.

4. Performance Evaluation: Variable costing could be a better option in performance evaluations where a manager has control over variable costs but not fixed costs.

When interpreting financial reports and profitability analysis, the difference are important for Swipe 50 Limited's management.

3. Costing Approaches Comparison:

Absorption costing and variable costing are two different ways of determining product costs. The primary distinction between these two methods is in the way they treat fixed manufacturing overhead costs. Both have their specific advantages and are useful for different purposes within management accounting. Below is an in-depth comparison of these methods.

Absorption Costing:

1. The cost of a product is determined using this technique that considers all manufacturing expenses that include direct materials, direct labor, variable overhead and fixed overhead too.
2. Inventory can be priced according to total budgeting for production which includes part of fixed manufacturing costs.
3. Required by Generally Accepted Accounting Principles (GAAP) for external financial statements as well as tax documentation.
4. Reported profit can be affected by changing the volumes of production with the idea being that higher outputs may lead to higher profits even when sales are constant.
5. Decision-Making: Offers a detailed cost per unit that is useful for long-term pricing strategies and examining total cost recovery.
6. Strengths:
 - Provides an all-encompassing understanding of all costs incurred during manufacturing processes.
 - Is in compliance with external accounting norms.
 - Helpful when engaging in strategic planning or establishing prices for extended periods.
7. Limitations:
 - If production and sales are not synchronized, it might distort the profit margin.
 - It can encourage the excess production to enhance short-term profitability.
 - It is of little value when making short-term plans and assessing performance immediately.

Variable Costing

1. **Definition:** This costing technique considers only variable manufacturing costs—direct materials, direct labour, and variable overheads—and treats fixed manufacturing overheads as a distinct period expenditure.

2. **Inventory Valuation:** Accordingly, this method entails that inventory should be given at values which strictly comprise on variable production costs leaving out anything in terms of fixed overheads.

3. **Financial Reporting:** Variable costing is not compliant with GAAP external financial statements but is useful for internal analysis and decision-making.

4. **Profit Calculation:** Profits are affected by changes in sales volumes as opposed to production volumes and changes in inventory levels do not have an effect on reported profits.

5. **Decision Making:** This is used for cost-volume-profit analyses, break-even analyses and making decisions whether to make, or to buy products.

6. Strengths:

- It presents sales, costs and profits more transparently.
- More suitable for short-term choices and evaluating operation results.
- Makes easy calculations of contribution margins and break-even points.

7. Limitations:

- Not okay with GAAP external reporting.
- Might undervalue inventory as it doesn't include fixed overhead.
- May lead to prices that forget long-term fixed costs.

^ Importance of each Method:

1. **Financial Reporting:** Absorption costing plays an important role in following GAAP and gives a clear indication of overall production expenses to outside parties.

2. Decision Making: Variable costing is often much more relevant when making decisions like whether or not to accept a special order or how to improve the product mix.

3. Performance Evaluation: Variable cost information can be better suited for assessing department manager performance since they control variable expenses only but have no power over fixed ones.

4. Pricing Strategies: Absorption costing determines the full cost per unit, which is very vital in long-term price strategies aimed at covering all costs; whereas, variable costing recommends prices only for the moment, thus beneficial for short-term price decisions.

5. Inventory management: Absorption costing offers more thorough inventory valuation thus very significant for accurate balance sheets and overall financial position evaluation.

6. Cost behaviour analysis: Variable costing separates fixed costs from variable costs making it easier to analyze how these costs behave over time and hence make forecasts regarding them.

7. Break-even analysis: Variable costing simplifies break-even calculations and contribution margin analysis which helps understand the interrelation of costs, volume, and profit.

8. Product line decisions: Both methods can give some useful insights into this matter; while direct profitability is evaluated by variable costing, absorption cost ensuring all expenses are considered while making long-term product line decisions.

Understanding both methodologies enables Swipe 50 Limited to receive a comprehensive perspective of financial performance and make educated decisions. The option is determined by the specific decision and time period.

Variable costing helps determine whether a one-time special order at a lower price is profitable in the near run. For long-term pricing plans, absorption costing provides complete cost recovery.

4. Improving Accounting Systems

Enhancements Swipe 50 Ltd. Genfe hop to optimize its accounting systems and decision-making processes:

1. Evaluate the spending with Activity-based costing (ABC)

This method provides a better way of assigning overhead costs to products by identifying the activities that cause those costs. This includes, but is not limited to: Swipe 50 Ltd.

> Major Production Activities (Material Handling, Setting-up machines and Quality checking)

– Predicting cost of doing each one these activities

Choosing a good cost driver of each specific activity

– Allocating charging costs over time to the products that use these activities

Benefits:

– More accurate goods costing

It enhances the understanding of how activity related to cost

Solid Foundational Base Pricing Choices

-Notice inefficiencies or waste of actions

Implementation Steps:

A) Conduct activity assessment

B) Assign resource costs to activities

C) Nature of cost determinants to be employed

D) Calculate process charges

E) Cost assignments on items

2. Implement a Full-featured ERP System.

- Earp software has the power to consolidate various operational functions such as finance, inventory and manufacturing. This may look something like: Swipe50Ltd

- Real-Time Stock & Production Monitoring

- Centralized accounting reports (if applicable in the department)

- Automation in the costing for products automatically

- Better forecasting

Some benefits of this strategy are being increased data accuracy & consistency, real-time reporting & analysis, improved inventory management and Better decision-making through integrated data.

Implementation Steps:

- a) Evaluate current processes and requirements
- b) Select suitable ERP software
- c) Plan the system rollout
- d) Train employees on the new system
- e) Migrate data and launch the system
- f) Continuously review and optimize

3. Adopt a Balanced Scorecard Approach:

This strategic management tool aligns Swipe 50 Ltd.'s business activities with the company's vision and strategy. It includes:

- Financial metrics (e.g., profitability, revenue growth)
- Customer metrics (e.g., satisfaction, market share)
- Internal process metrics (e.g., efficiency, quality)
- Learning and growth metrics (e.g., employee satisfaction, innovation)

Benefits:

- Thorough analysis of the functioning of an enterprise
- Harmonization of the various operational deeds with the strategic aims
- Bettered communication regarding the goals
- Improved assessment of performance

Implementation Steps:

- a) What is the vision and strategy of the company
- b) Identify KPI for each domain
- c) Plan targets for KPIs
- d) Create programs that will enable one reach those goals

e) Generate reporting and review techniques

f) Consistently revise the scorecard

4. Increase profitability with more disciplined cost control methods. This would be possible through period-by-period actual vs. budgeted cost comparison.

Adoption of policy of standard pricing.

Keeping continuous watch over key cost parameters.

Regular sessions for cost-reduction with employees.

Benefits:- Increase in spending awareness and early detection of expense problems. -Better evaluation of performance. -Sustained decrease in expenses.

Steps to Implement: a) Clearly spell out the spending rules for regular classrooms .

b) Actual spending vs. Ideals.

b) Conduct regular dissimilarity checks.

b) Devise strategies to handle adverse situations.

a) Choose informative and interesting initiatives to support cost-sensitive culture.

5. Develop an Advanced Management Reporting System:

Management reports consist of a set of documents that provide essential information for making decisions. They may include:

- The daily report on production and sales
- Forecasts for cash flows week by week
- Monthly profitability analyses based on product lines
- Quarterly summaries for strategic reviews

Benefits:

- Up to date statistics for making good decisions
- More openness in the business
- Operations that are more aligned with strategies
- Ability to identify and react to trends improved

Implementation Steps:

- a) In order to know what significant information is needed by each level in management,
- b) Drawing up the appropriate formats for reports.
- c) Where it is possible to do so, make the data collection and reporting automated.
- d) Create a consistent timing schedule for reporting.
- e) Give coaching to the managers on how to read reports and take action therefrom
- f) constantly appraise as well as modify the reporting system.

Swipe 50 Ltd., by employing these strategies, will be improving its accounting systems greatly, bettering cost control, and also aligning their operations with strategic goals, thus increasing sustainable growth and efficiency.

5. **Importance of Managerial Accounting in Manufacturing**

Swipe 50 Ltd. is one of those manufacturing companies that relies heavily on managerial accounting which brings along several advantages:

1. **Cost Control and Efficiency:**

October 2023 data is the starting point, but market trends can still impact prices. To stay informed, monitor daily updates, newsletters, or forums. Understanding trends helps make informed decisions, especially for manufacturers like construction companies.

2. **Decision Making:**

For making different decisions regarding strategy, this offers useful insights as to whether components should be produced in-house or outsourced; an appropriate blend of products and their corresponding production volumes based on different models; competitive prices that would still be profitable enough for Plus Swipes; returns on investments in new machines for manufacturing companies

.

3. **Performance Evaluation:**

Management accounting makes it possible to:

- Evaluate departmental as well as process performance
- Establish key performance indicators (KPIs) and track them
- Develop performance-based incentives

4. Budgeting and Forecasting:

The key functions are as follows:

- Crafting production budgets
- Forecasting future payment and revenue
- Conducting variance analysis to compare actual performance with budgeted figures

In the case of Swipe 50 Ltd., this entails thorough budgeting for materials, labor, and overheads alongside continuous performance evaluations.

5. Product Costing:

Precise costing is quite essential for:

- Deciding on price with much information,
- Examining how much profit one has made,
- Estimating the worth of stock.

The use of job costing or process costing helps to establish what it really takes to produce each Plus Swipe, this being important with regard to pricing and production strategies.

6. Inventory Management:

This means that Inventory management in Swipe 50 Ltd can be successfully managed through:

- minimizing carrying costs while having enough stock
- optimizing the amount of inventory at any given time
- implementing just-in-time (JIT) systems.

With regard to the aforementioned points, Swipe 50 Ltd always ensures proper raw materials and efficient production processes by adopting effective inventory management approaches.

7. Capacity Planning:

Furnishes analytics for:

- Making a decision on whether energising or diminishing the production potential
- Optimizing existent capacity usage
- Planning maintenance or improvements for machinery

8. Quality Cost Analysis:

Keeping tabs on expenditures pertaining to quality and regulating them:

- Finding a balance between expenses and standards
- Locating quality control criteria that yield maximum results
- Evaluating quality management problems versus advancements' advantages

9. Continuous Improvement:

Managerial accounting provides precise operational information that helps in:

- Initiatives such as lean manufacturing or six sigma
- Identifying and resolving production-related inefficiencies
- Assessing how changes made affect the process.

10. Strategic Planning:

Information that plays an important role in aiding long-term planning is given below:

- Business strategy should be related to operations
- Starting new markets or developing products requires classification of sound decisions
- Sustainability of product lines or business units is evaluated through this process

11. Cash Flow Management:

In these areas, assistance is needed:

- Handling of available liquid assets
- Prediction of currency flow requirements
- Early detection of probable influxes obstacles

12. Compliance and Risk Management

Financial accounts are meant to be used externally, however, managerial accounts offer:

- Following internal rules
- Overseeing operational threats

- Supplying data for audits and compliance with regulations

For Swipe 50 Ltd., a good managerial accounting practice is a key necessity to enhance production, control expenses and help in the determination of price strategies as well as production volumes. It is also important to mention that increasing volume of goods by this company would need proper management accounting to help it survive within this highly competitive environment by producing products at reasonable prices thus making profits.

6.0 Conclusion

The analysis of Swipe 50 Limited's finances done through variable and absorption costing has shown some important things about the way that they do their stuff and how much money they make. Looking at these two different ways of calculating costs shows us how critical it is to choose the appropriate one so that managers can make good choices.

Key Findings:

1. Impact of Changes in Inventory: Variation reserves affect reported profits to a greater extent under absorption costing than variable having process.
2. Contribution Margin Analysis — this is critical for short-term decisions, as it provides visibility of the drivers that are making a business profitable.
3. Full Cost Visibility- Knowing all costs are critical for long-term strategy planning.

Proposed Improvements:

Analysis Implantation as analysed in the detailed report, ABC may be considered to improve informatics and precision of MUDA Hotel group likewise cost allocation; ERP must merge data into a single platform, whereas strategic view also requires an additional balanced scorecard approach thus Swipe 50 LTD has more effective decisions realise increase accessibility with EIT governance estate.

5. Why Managerial Accounting's Important:

Manufacturing managerial accounting is essential to:

Cost Management: Managing the Production Costs.

- Decision-making: Reaching an informed decision concerning production, pricing and investment decisions.

Performance Assessment: Better operational performance.

- Align operations with business goals via Strategic planning

Recommendations:

1. Modifications: Include and code as required in your financial systems
2. Review Pricing Methods Regularly: Ensure they stay appropriate to company decisions.
3. Financial Disclosures: Fund Education for Bosses; Educate managers on financial disclosures.
4. Stay updated: Simply put, and in the most brutally honest terms possible; you need to adjust your practices according to what is happening in the field so that your libraries can form an active repository for specific changes occurring within said industry.

With these insights and changes from our expert reviewers, Swipe 50 Ltd. can better their processes to make insightful decisions enabling it a strong position in the screen protector market for years to come

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