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MGT510: Managerial Accounting
Module Assignment: Managerial Accounting Report

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Introduction

Managerial accounting is the practice of creating and providing financial information for internal use by management to make decisions that improve the organization's overall performance. This information is used to determine the financial impact of decisions and to plan and control operations. Managerial accounting is also known as management accounting, and it encompasses a broad range of topics, including budgeting, cost analysis, strategic planning, and performance evaluation. The goal of managerial accounting is to provide managers with the information they need to make sound business decisions that will help the organization achieve its goals and objectives.

Managerial accounting is a critical aspect of any business organization, as it involves the collection, analysis, and interpretation of financial information. This type of accounting is used by managers and executives to aid in making informed business decisions based on financial data. By using managerial accounting, companies can analyze costs, assess their profitability, and develop strategies for maintaining profitability.

One of the primary roles of managerial accounting is to provide financial information to organizations that will assist them in making decisions. For example, preparing financial reports that detail costs, revenues, and profits can help decision-makers evaluate the company's performance and identify where improvements can be made. This information can also help them make informed decisions that will affect the company's future growth, such as whether to invest in new products or expand into new markets.

Another important role of managerial accounting is to identify and manage costs. Managers use financial data to analyze costs and determine which areas of the business are experiencing

inefficiencies. This data can then be used to make changes to how the business operates, such as implementing cost-saving measures or reducing expenses.

In summary, managerial accounting is essential in the decision-making processes of a company. It enables organizations to make informed decisions based on financial data, manage costs, and ultimately improve overall performance.

Managerial accounting is the practice of using accounting information — from revenues to production inputs and outputs affecting the supply chain — internally, in support of organization-wide efficiency and for tracking the organization's progress toward attaining its stated goals. (Retrieved from website).

Profit statement

Income Statement - Absorption costing

Absorption costing is used to determine the cost of goods sold and ending inventory balances on the income statement and balance sheet, respectively. It is also used to calculate the profit margin on each unit of product and to determine the selling price of the product. (Retrieved from website)

The income statement prepared using absorption costing is a financial statement that provides a comprehensive view of the company's financial performance during a specific period. Absorption costing allocates both variable and fixed manufacturing costs to the cost of goods sold (COGS), providing a more accurate representation of the true cost of producing goods.

The income statement using absorption costing consists of several key components. First, it includes the total sales revenue generated by the company during the period. This represents the total amount of revenue generated from the sale of goods or services.

Next, the COGS is calculated by including all the variable manufacturing costs, such as direct materials, direct labor, and variable overhead costs. Additionally, absorption costing allocates a portion of the fixed manufacturing costs, including fixed overhead expenses, to the COGS. This ensures that the fixed costs are accounted for and absorbed by the products.

The gross profit is then determined by subtracting the COGS from the total sales revenue. It represents the amount of revenue remaining after accounting for the direct and indirect costs directly associated with production.

Following the gross profit, the income statement includes other operating expenses such as selling and administrative expenses. These expenses are deducted from the gross profit to determine the operating profit or loss.

Finally, non-operating items, such as interest income or expenses, are considered to arrive at the net profit or loss for the period. The net profit is a measure of the company's overall profitability after accounting for both operating and non-operating expenses.

The income statement prepared using absorption costing provides a more comprehensive picture of the company's financial performance by allocating fixed manufacturing costs to the COGS. This allows for a fairer representation of the true cost of production and helps management in evaluating the profitability of the company's products or services.

Swipes 50 limited profit statement – Absorption costing as below based on the given information.

Income statement – Feb (Absorption)

Sales		253,000
Cost of goods sold		-67,321
Beginning Inventory	0	
Production	73,175	
End Inventory	-5,854	
Gross Margin		320,321
Operating Cost		
Selling Expenses		-44,500
Fixed Cost		-8,275
Variable Cost		-36,225
Operating Income		231,321

The above income statement for the month of February, prepared using absorption costing, reveals the financial performance of the company during that period.

The company generated 253,000 in sales revenue, representing the total amount of revenue from the sale of goods.

The COGS is calculated as 67,321. It includes the cost of producing the goods sold during the period. The calculation takes into account the beginning inventory, production during the month, and the end inventory.

The income statement states that there was no beginning inventory, implying that all goods sold were produced during the period.

The company produced goods worth 73,175 during February.

The company had an end inventory balance of 5,854.

The gross margin is calculated by subtracting the COGS from the sales revenue. In this case, the gross margin is 320,321, which represents the remaining revenue after accounting for the direct costs associated with production.

The operating costs include selling expenses, fixed costs, and variable costs. Selling expenses are recorded as -44,500, representing the costs incurred in promoting and selling the company's products. Fixed costs are 8,275, which are the fixed expenses not directly tied to production. Variable costs are 36,225, accounting for the variable expenses incurred during the period.

The operating income is determined by subtracting the operating costs from the gross margin. In this case, the operating income is 231,321, indicating the profit generated from the company's core operations.

Income statement – March (Absorption)

Sales		341,000
Cost of goods sold		-90,339
Beginning Inventory	5,854	
Production	84,485	

End Inventory	0
Gross Margin	431,339
Operating Cost	
Selling Expenses	-57,100
Fixed Cost	-8,275
Variable Cost	-48,825
Operating Income	317,139

The company generated 341,000 in sales revenue during March, representing the total amount of revenue from the sale of goods.

The COGS is calculated as 90,339. It includes the cost of producing the goods sold during the period, taking into account the beginning inventory, production, and the end inventory.

The income statement indicates that there was a beginning inventory of 5,854.

The company produced goods worth \$84,485 during March.

The end inventory balance is stated as 0, suggesting that all goods produced were sold by the end of the period.

The gross margin is determined by subtracting the COGS from the sales revenue. In this case, the gross margin is 431,339, representing the remaining revenue after accounting for the direct costs associated with production.

The operating costs include selling expenses, fixed costs, and variable costs. Selling expenses are recorded as 57,100, representing the costs incurred in promoting and selling the company's products. Fixed costs amount to 8,275, which are the fixed expenses not directly tied to production. Variable costs are 48,825, accounting for the variable expenses incurred during the period.

The operating income is calculated by subtracting the operating costs from the gross margin. In this case, the operating income is 317,139, indicating the profit generated from the company's core operations during March.

Variable methods

The income statement prepared using the variable method provides a breakdown of the financial performance of a company by considering variable costs. It helps in understanding the contribution margin and operating income.

The key components of an income statement prepared using the variable method include:

Sales: This represents the total revenue generated from the sale of goods during a specific period.

Cost of Goods Sold: This includes the costs directly associated with producing or purchasing the goods sold. It typically includes the cost of raw materials, direct labor, and variable manufacturing overhead.

Beginning Inventory: This represents the value of inventory at the beginning of the period under consideration.

Production: It represents the cost of producing additional units of goods during the period.

Ending Inventory: This represents the value of inventory at the end of the period under consideration.

Production Volume Variance: This accounts for the difference between the actual production volume and the standard production volume, helping to analyze efficiency and productivity.

Contribution Margin: This represents the amount remaining after deducting the variable costs (such as direct materials, direct labor, and variable manufacturing overhead) from the sales revenue.

Fixed Manufacturing Costs: These are the costs that remain constant regardless of the level of production.

Operating Income: It is calculated by subtracting the fixed manufacturing costs (equal to the contribution margin) from the contribution margin. Operating income reflects the profitability of the company after accounting for both variable and fixed costs.

A variable costing income statement is one in which all variable expenses are deducted from revenue to arrive at a separately-stated contribution margin, from which all fixed expenses are then subtracted to arrive at the net profit or loss for the period. (Retrieved from website)

Income statement – Feb (Variable Method)

Sales		253,000
Cost of goods sold		-49,446
Beginning Inventory	0	
Production	55,300	
End Inventory	-5,854	
Production volume variance	10,725	
Contribution margin		-28,600
Fixed Manu fact	-28,600	
Operating income		174,954

The income statement for February, prepared using the variable method, is as follows:

Sales: 253,000

Cost of Goods Sold:

Beginning Inventory: 0

Production: 55,300

Ending Inventory: 5,854

Production Volume Variance: 10,725

Contribution Margin: 28,600

Fixed Manufacturing: 28,600

Operating Income: 174,954

The income statement starts with the sales revenue of 253,000. Then, the cost of goods sold is calculated using the variable method. The beginning inventory is 0, the production cost is 55,300, and the ending inventory is 5,854.

Additionally, there is a production volume variance of 0,725, which represents the difference between the actual production volume and the standard production volume.

The contribution margin, which represents the amount remaining after deducting the variable costs from the sales revenue, is 28,600.

Finally, the operating income is calculated by subtracting the fixed manufacturing costs (which are equal to the contribution margin) from the contribution margin. The operating income for February is 174,954.

Income statement – March (Variable Method)

Sales	341,000
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Cost of goods sold		-69,604
Beginning Inventory	5,854	
Production	63,750	
End Inventory	0	
Production volume variance	7,865	
Contribution margin		-28,600
Fixed Manufacturing	-28,600	
Operating income		242,796

The income statement for March, prepared using the variable method, is as follows:

Sales: 341,000

Cost of Goods Sold:

Beginning Inventory: 5,854

Production: 63,750

Ending Inventory: 0

Production Volume Variance: 7,865

Contribution Margin: 28,600

Fixed Manufacturing: 28,600

Operating Income: 242,796

The income statement begins with sales revenue of 341,000 for the month of March. The cost of goods sold is then calculated using the variable method. The beginning inventory is 5,854, the production cost is 63,750, and the ending inventory is 0, indicating that all produced goods were sold.

In addition, there is a production volume variance of 7,865, which represents the difference between the actual production volume and the standard production volume.

The contribution margin, which indicates the amount remaining after deducting the variable costs from the sales revenue, is 28,600. This negative value suggests that the variable costs exceeded the sales revenue for the month.

Finally, the operating income is calculated by subtracting the fixed manufacturing costs (equal to the contribution margin) from the contribution margin. The operating income for March is 242,796.

Reconcile the profit calculated using absorption costing to that using variable costing!

Operating income FEB under absorption.	231,321
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Operating income under variable	174,954
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	56,367
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Operating income MARCH under absorption.	317,139
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Operating income under variable	242,796
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	74,343
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Reconciling the profit calculated using absorption costing to that using variable costing requires an understanding of the key differences between these two costing methods and their impact on the allocation of costs and determination of profit.

Absorption costing is a traditional costing method that assigns both variable and fixed manufacturing costs to units of production. It includes direct materials, direct labor, variable manufacturing overhead, and fixed manufacturing overhead in the cost of goods sold. On the other hand, variable costing only considers the variable costs (direct materials, direct labor, and variable manufacturing overhead) as part of the cost of goods sold.

The main difference between absorption costing and variable costing lies in the treatment of fixed manufacturing overhead. Absorption costing spreads fixed manufacturing overhead across all units produced based on a predetermined absorption rate, usually calculated as a function of labor hours or machine hours. This means that a portion of fixed overhead is allocated to each unit, whether it is sold or remains in inventory.

In contrast, variable costing treats fixed manufacturing overhead as a period expense rather than assigning it to individual units. Fixed overhead costs are treated as a separate expense on the income statement and not included in the cost of goods sold. This means that fixed overhead costs are deducted directly from the contribution margin to calculate operating income.

As a result of these different approaches, the profit calculated using absorption costing and variable costing may differ. To reconcile these differences, a reconciliation statement can be prepared to highlight the impact of changes in inventory levels on the profit calculation.

When inventory levels increase, absorption costing allocates a portion of fixed overhead to these units, resulting in a lower cost of goods sold and higher reported profit. On the other hand, variable costing treats the fixed overhead costs as a period expense and does not include them in the cost of goods sold, resulting in a higher cost of goods sold and lower reported profit.

Conversely, when inventory levels decrease, absorption costing recognizes the previously allocated fixed overhead as an expense, reducing the reported profit. Variable costing, however, does not adjust the cost of goods sold for changes in inventory levels, resulting in a consistent reported profit.

The reconciliation statement typically starts with the profit calculated using absorption costing and adjusts it for the change in inventory levels multiplied by the fixed overhead rate per unit. This adjustment reflects the portion of fixed overhead allocated to the change in inventory. The resulting adjusted profit is then compared to the profit calculated using variable costing.

By reconciling the profits calculated under absorption costing and variable costing, management can gain insights into the impact of inventory levels and fixed overhead allocation on reported profits. This analysis can help in decision-making related to production levels, pricing strategies, and inventory management.

It is important to note that both absorption costing and variable costing have their advantages and limitations, and the choice of costing method depends on various factors, such as industry norms, regulatory requirements, and management preferences. Reconciling the profits calculated under these two methods provides a comprehensive view of the financial performance and facilitates informed decision-making within an organization.

Difference between both methods

Absorption costing and variable costing are two different methods of costing used in managerial accounting. However, there are several differences between these two methods.

Definition

Absorption costing is a method of costing where all the costs incurred in the production process are absorbed into the product cost. It includes the direct costs (direct materials, direct labor, and direct expenses) and indirect costs (manufacturing overheads).

On the other hand, variable costing is a method of costing where only the variable costs of production are included in the product cost. Variable costs are those costs that vary directly with the level of production such as direct materials, direct labor, and variable manufacturing overheads.

Treatment of Fixed Costs

Fixed costs are those costs that remain constant irrespective of the level of production. Absorption costing treats fixed costs as product costs, while variable costing treats fixed costs as period costs.

Under absorption costing, fixed costs are absorbed into the product cost, and the cost of goods sold (COGS) comprises of the variable cost of the product plus the fixed cost per unit of product. This means that an increase in production will lead to an increase in the number of units produced, reducing the fixed cost per unit, and hence, the cost of goods sold.

On the other hand, variable costing, fixed costs are treated as period costs and are not absorbed into the product cost. The COGS is calculated only by adding the variable cost of the product, and this means that an increase in production will not lead to a reduction in the cost of goods sold.

Income Statement Presentation

There is a significant difference in the way the income statement is presented between the two methods. Absorption costing includes fixed costs in the cost of goods sold and hence, the gross margin in the income statement reflects the contribution of both variable and fixed costs.

However, under variable costing, fixed costs are treated as period costs and are not included in the cost of goods sold. Hence, the income statement reports only the variable costs of production and the contribution margin.

Decision Making

Both absorption costing and variable costing methods can be used for decision-making. However, the results obtained from these methods differ, and hence, it is essential to understand the differences before deciding which method to use.

For example, in short term decision-making, variable costing may be considered more appropriate as it considers only the variable costs of production, which is more relevant while considering short-term decisions.

On the other hand, absorption costing may be more appropriate for long-term decision-making as it considers all costs and hence, reflects the total cost of production better.

Taxation

There are also differences in tax implications between the two methods. Absorption costing, which includes all costs of production including fixed costs, may result in a higher level of profit, leading to higher taxes.

On the other hand, variable costing, which excludes fixed costs, may result in a lower level of profit, leading to lower taxes. This is due to the fact that when revenue is lower than production costs, the cost of goods sold under absorption costing will be lower than the cost of goods sold under variable costing.

Conclusion

In conclusion, both absorption costing and variable costing are essential methods of costing used in managerial accounting. Absorption costing includes all costs of production, both fixed and variable costs, while variable costing includes only variable costs of production.

The treatment of fixed costs is one of the key differences between these two methods, with absorption costing treating them as product costs, and variable costing treating them as period costs. The presentation of income statements also differs between these two methods.

While both methods can be used for decision-making, the results obtained from these methods are different, and hence, it is essential to understand their differences before deciding which method to use. Finally, taxation implications are also different between the two methods.

The importance of each method.

The absorption and variable costing methods are crucial for managerial accounting because they help managers and decision-makers understand the costs involved in producing goods or services. These methods provide information about the different costs incurred during production, which can help managers make informed decisions and develop strategies for improving profitability.

With absorption costing, managers can calculate the total cost of producing a product by including direct materials, direct labor, and various manufacturing overhead costs. This helps them determine the actual cost of producing and managing inventory. They can also analyze how changes in production or sales volumes affect the overall cost of production.

Variable costing, on the other hand, is useful for decision-making related to short-term operations as it focuses only on the costs that vary with production. It helps managers understand the marginal cost of producing more units and decide how to price their products or services. They can also determine the level of production that is necessary to cover costs or generate profit.

These costing methods also help managers in budgeting and forecasting, as they provide information about the costs of production and sales revenue. This allows managers to make accurate projections of sales and costs for future periods, and make adjustments, if needed.

In summary, absorption and variable costing methods are important tools for managerial accounting as they allow managers to make informed decisions about pricing, production levels, inventory management, and overall profitability.

Ways to improve accounting system.

Swipes 50 Ltd. can improve its accounting systems by implementing several strategies to enhance efficiency, accuracy, and overall financial management.

1. **Implementing Accounting Software:** Swipes 50 Ltd. can benefit from using accounting software to streamline its financial processes. Accounting software automates various tasks, such as bookkeeping, invoicing, and financial reporting, reducing the chances of errors and increasing efficiency. By centralizing financial data in a digital system, the company can improve data accuracy, track transactions more effectively, and generate timely and accurate financial statements. Moreover, accounting software often offers features such as integration with other business systems, financial analysis tools, and the ability to generate customized reports, providing valuable insights for decision-making.
2. **Enhancing Internal Controls:** Strengthening internal controls is crucial for maintaining the integrity and reliability of financial information. Swipes 50 Ltd. can implement procedures to safeguard assets, prevent fraud, and ensure compliance with regulatory requirements. For example, the company can establish segregation of duties, where different individuals

are responsible for initiating, recording, and reconciling transactions. Regular internal audits can be conducted to identify any weaknesses in the system and implement necessary improvements. By enhancing internal controls, Swipes 50 Ltd. can minimize risks, improve accuracy, and provide stakeholders with confidence in the company's financial statements.

3. Regular Financial Analysis: Swipes 50 Ltd. can improve its accounting systems by implementing regular financial analysis practices. This involves analyzing key financial ratios, trends, and benchmarks to evaluate the company's financial performance, identify areas of improvement, and make informed decisions. Financial analysis can help the company monitor profitability, liquidity, and solvency, allowing management to take appropriate actions to optimize financial outcomes. By conducting regular analysis, Swipes 50 Ltd. can identify opportunities for cost reduction, pricing adjustments, and resource allocation improvements. Additionally, financial analysis enables the company to assess the effectiveness of its accounting systems and make necessary adjustments to enhance overall financial management.

It is important for Swipes 50 Ltd. to consider the specific needs and resources of the company when implementing these improvements. Seeking professional advice from an accountant or financial consultant can be valuable in assessing the current accounting systems and determining the best strategies for improvement. By investing in modern technology, establishing strong internal controls, and conducting regular financial analysis, Swipes 50 Ltd. can enhance its accounting systems, optimize financial operations, and make well-informed business decisions.

The importance of account jobs

Managing accounts jobs are crucial in a manufacturing company as they play an essential role in ensuring financial stability and growth. The following are the reasons why managing accounts jobs are crucial in a manufacturing company:

- **Cost Analysis and Cost Reduction:** One of the primary responsibilities of managing accounts jobs in a manufacturing company is to analyze costs, identify areas where costs can be reduced and implement strategies to reduce costs. They analyze the various costs associated with manufacturing, such as labor and material costs, overheads, and inventory costs. They also prepare and maintain budgets and forecasts for the company, which help identify opportunities for cost optimization. By managing costs effectively, manufacturing companies can improve profitability, maintain competitiveness in the market, and ensure sustainable growth.
- **Inventory Management:** Managing accounts jobs play a critical role in managing inventory in manufacturing companies. They are responsible for tracking inventory levels, analyzing inventory flows, and managing stock levels to ensure that the company has sufficient inventory to meet customer demand without overstocking the inventory. By managing inventory effectively, managing accounts jobs can reduce the risk of stock-outs, reduce carrying costs, and improve cash flow.
- **Financial Analysis:** Managing accounts jobs in manufacturing companies are also responsible for financial analysis. By analyzing financial statements and employing tools like ratio analysis, they can provide insights into the financial health of the company. They can identify financial strengths and weaknesses of the company. This information is

essential to make informed business decisions, such as investment decisions or determining the market value of the company.

- **Compliance and Risk Management:** Manufacturing companies must comply with several financial and legal obligations. Managing accounts jobs ensure that the company complies with these obligations and disposes of compliance risks arising from financial accounting. They track and report taxes, maintain financial records and prepare financial statements as per accounting standards and regulatory requirements.
- **Financial Reporting:** Financial reporting is another critical responsibility of managing accounts jobs. They prepare financial reports, such as balance sheets and income statements, to provide insight into the company's financial position and performance. These reports are used by stakeholders, including management, investors, lenders, and government agencies, to make informed decisions about the company.
- **Forecasting and Planning:** Manufacturing companies need to plan and forecast financial outcomes for the upcoming year. The managing accounts jobs use historical data and future trends to develop forecasts for revenue, expenses, and profits. This helps the company to set achievable financial goals and manage cash flow effectively.
- **Budgeting:** Managing accounts jobs in a manufacturing company work to create annual budgets to set financial targets and to track performance against those targets. Budgeting is essential for planning future spending, identifying where improvements can be made and reduce unnecessary expenses, and ensuring that the company has the necessary resources to achieve its goals.

In conclusion, managing accounts jobs in a manufacturing company play a significant role in ensuring the financial stability, growth, and success of the company. They are responsible for

effectively managing costs, inventory, compliance risks, and financial reporting. They also provide valuable insights for business decisions and forecasting financial outcomes. Manufacturing companies could not function without the expertise of managing accounts jobs, and their contribution is invaluable in driving sustainable growth.

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