COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialization:	FINANCE
Affiliated Center:	CEO business school
Module Code & Module Title:	MGT510 – Managerial Accounting
Student's Full Name:	ALDAWSARI, ABDULRAHMAN MOHAMMED A
Student ID:	EIU2021045
Word Count:	3560
Date of Submission:	13/06/2023

I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.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

DATE: __13/06/2023___________________

EIU Paris City Campus
Address: 59 Rue Lamarck, 75018 Paris, France | **Tel:** +33 144 857 317 | **Mobile/WhatsApp:** +33607591197 | **Email:**paris@eiu.ac

EIU Corporate Strategy & Operations Headquarter
Address: 12th Fl. Amarin Tower, 496-502 Ploenchit Rd., Bangkok 10330, Thailand | **Tel:** +66(2)256923 & +66(2)2569908 |**Mobile/WhatsApp:** +33607591197 | **Email:** info@eiu.ac

Table of Contents

Introduction

Managerial accounting, often known as management accounting, is a crucial subset of accounting that an organization utilizes to locate, assess, estimate, and categorize the accounting data that the management accountant uses to make choices about the company's growth and output. Accounting for management allows for the effective and efficient management of an organization's financial resources. Making judgements in this study involves using organizational management accounting tools and procedures. The organization's management can accomplish its predetermined goals within the allotted time by using management accounting software. Only specialists with the necessary training may use these technologies to enhance how a firm is run. Through using management accounting software, the management of the organization can achieve its pre-set targets within the stated duration. The only people who can apply these instruments and enhance the operating method of the business are qualified professionals. The terms "marginal expense" and "absorption expense" are used to distinguish between two different types of expenses that reflect total revenue or profit separately from one another and that employ fixed costs in various ways.

Three additional strategies are provided in this study that Swipes 50 Limited can use to establish its accounting system quickly and effectively. Also discussed in this research is the significance of a manufacturing company to the accounting staffing division. The company that makes laptops with specialized screen protectors, Swipes 50 Limited, is the basis for this study.

For the months of February and March, a profit statement for Swipe 50 Limited utilizing:

a- Absorption Costing

b- Variable CostingAnswer

a- Full costing, absorption costing, is an approach in which all costs, both fixed and variable, are included in the price per unit of output. The dependent or marginal cost varies greatly. The fixed and variable costs are frequently known. When calculating the product's net profits, the absorption costing approach does not distinguish between variable costs and fixed expenses. All variable and fixed expenses are consumed or recovered in absorption costing, also known as full costing. Additionally, it suggests that fixed costs are linked to specific things, which means that any production expenses whether contingent or fixed—might be included in the price of the item.

Figure (1): show Absorption Costing

b- Marginal costing, variable costing, is the process of determining the unit cost while considering the marginal cost. In essence, it means that only direct expenses and overheads are allocated to inventory, while gross overhead costs are charged for expenditures made at the time they are spent. The marginal cost contribution is handled differently for fixed and variable costs. For the sake of making decisions, it is a crucial tool for the automobile sector. However, the fixed costs for the period are entirely written down to the gross contribution whereas the variable costs are tied to the marginal cost units of the commodity expense.

The technique known as marginal costing enables the company's management to make wise judgements and consider the appropriate cost structure.

Marginal Costing

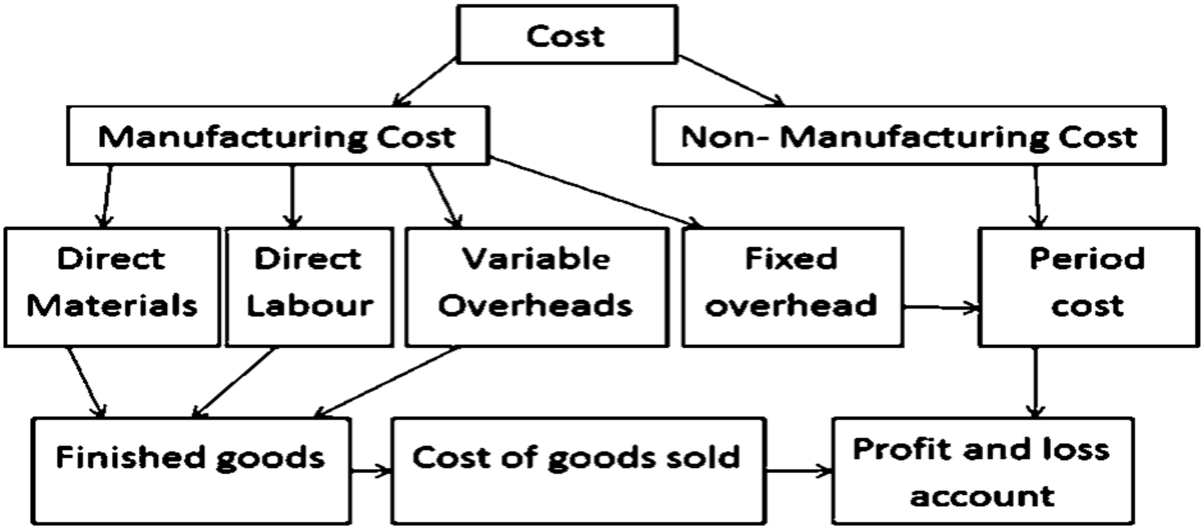

Figure 2: Marginal Costing

Table 1: Each technique has a different calculation for the cost of the product:

Marginal Costing or Variable Costing

Particulars	Marginal or Variable	Absorption
Direct Materials	Include	Include
Direct Labor	Include	Include
Overhead:Variable Fixed	Include	Include Not Include
Total Product Costs	Total	Total
Total Units Produced	/Divided	/Divided
Product Cost Per Unit	Cost per unit	Cost per unit

Table 2: Swipe 50 Ltd.'s profit report for the months of February and March

Particulars	February	March
Sales (Units)	12.500	14.500
Selling Price Per Unit	€ 22.00	€ 22.00
Sales Revenue	€ 2.75.000.00	€ 3.19.000.00
Less: Variable Costs		
February (12.500 X €2.39) + € 11.125	€ 41.000.00	
March (14.500 X€2.86) + € 16.559		€ 58.029.00
Contribution	€ 2.34.000.00	€ 2.60.971.00
Less: Fixed Costs		
February (€28.600 + €33.375)	€ 61.975.00	
March (€28.600 + €40.541)		€ 69.141.00
Operating Profit	€ 1.72.025.00	€ 1.91.830.00

1- Product Unit Cost

Particulars		Amount (in €)	Amount (in €)	Per Costs	Per Costs
Production (Units)	20.000	February	March	February	March
Direct Material		11.500	15.500	0.575	0.775
Direct Labor		29.000	33.250	1.450	1.663
Variable ProductionOverhead		7.300	8.500	0.365	0.425
Total Unit Product Costs		47.800	57.250	2.390	2.863

2- The whole cost of selling and administration.

February: € 44,500

Selling and management costs that are subject to change: € 44,500 X 25% = € 11,125Fixed Selling &Administrative Expenses: € 44,500 X 75% = € 33,375 For March: € 57,100

Variable Selling & Administrative Expenses: € 57,100 X 29% = € 16,559Fixed Selling and Administrative Expenses: € 57,100 X 71% = € 40,541 **Absorption Costing**

Table 3: Profit Statement for Swipe 50 Ltd. for the months of February and March

Particulars	February	March
Sales (Units)	12.500	14.500
Selling Price Per Unit	€ 22.00	€ 22.00
Sales Revenue	€ 2,75,000.00	€ 3,19,000.00
Less: Cost of Sales		
February (12.500 X€3.82) March (14.500 X€4.29)	€ 47,750.00	€ 62,241.25
Gross Profit	€ 2,27,250.00	€ 2,56,758.75
Less: Selling & Expenses	€ 44,500.00	€ 57,100.00
Operating Profit	€ 1,82,750.00	€ 1,99,658.75

1- Product Costs Unit

Particulars		Amount (in €)	Amount (in €)	Per Costs	Per Costs
Production (Units)	20.000	Feb.	Mar.	Feb.	Mar.
Direct Material		11,500	15,500	0.575	0.775
Direct Labor		29,000	33,250	1.450	1.663
Variable Production Overhead		7,300	8,500	0.365	0.425
Total Variable Production Costs		47,800	57,250	2.390	2.863
Fixed Production Overhead		28,600	28,600	1.430	1.430
Total Unit Product Costs		76,400	85,850	3.82	4.29

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

If production were higher than revenue, the cost of absorption would be higher relative to themarginal cost in terms of net profit or profit.

Table 4: Statement to Reconcile Profits under Marginal and Absorption Costing

Particulars	February Amount (€)	March Amount (€)
Operating Income or Profit – Absorption Costing	1,82,750.00	1,99,658.75
Add: Opening Stock	Nil	Nil
Less: Closing Stock (€20,000 - €12,500 = €7,500 X 1.430) (€20,000 - €14,500 = €5,500 X 1.430)	10,725	7,865
Operating Income or Profit – Marginal Costing	1,72,025.00	1,91,830.00

Analysis: Both management accounting methods and techniques use various costing approaches to determine the product's unit cost. The variance in closing stock valuation or operational profit is the cause of the disparity in revenue or operating profit. In February and March, operational profit or income was EUR 1,82,750.00 and EUR 1,99,658.75, respectively, while operating profit or income at marginal cost was EUR 1,72,025.00 and EUR 1,91,830.00. As a result, it may be claimed that the cost of absorption is preferred to the marginal cost as the best approach. Consequently, this brings in more money than the marginal costing method does.

Recommendation: Both strategies are appropriate ways for the company to produce the goods to gauge expenses and earnings. When comparing the operating profit or profits, the absorption costing profit is higher than the marginal costing profit, proving that this strategy is the most effective and appropriate for Swipes 50 Limited. Absorption costing is an effective costing method that includes both fixed and variable costs for production.

For the business to create the goods and determine costs and profits, both models are appropriate. The absorption costing profit is larger when comparing the operating profit or profits than the marginal costing profit, demonstrating that this method is the most efficient and suitable for Swipes 50 Limited. An efficient costing technique is absorption costing, which accounts for both fixed and variable production costs.

3- Explain how each method differs from the other method and also explain the importance of the methods.

Here are the main distinctions between absorption costing and marginal costing:

1. Treatment of fixed costs:

• Absorption costing: Fixed costs are allocated to products using an allocation base like machine hours or unit produced. This results in a higher per unit cost.

• Marginal costing: Fixed costs are ignored and treated as period costs. Only variable costs are considered, resulting in a lower per unit cost.

2. Objective:

• Absorption costing: Aimed at determining actual product costs and inventory valuation.

• Marginal costing: Aimed at decision making regarding production, pricing and profit.

3. Financial statements:

• Absorption costing: Required for preparing financial statements in accordance with GAAP.

• Marginal costing: Not used in preparation of financial statements.

4. Income measurement:

• Absorption costing: Includes an allocation of fixed costs, so it measures total product costs and actual profit.

• Marginal costing: Excludes fixed costs, so it measures just contribution margin and not actual profit.

5. Decision making:

• Absorption costing: Not useful for decision making about "make or buy", product mix, pricing, etc. since it overstates product costs.

• Marginal costing: Useful for decision making since it focuses only on relevant variable costs.

In summary, absorption costing aims to determine actual product costs while marginal costing aims to aid management decisions. Absorption costing allocates fixed costs while marginal costing ignores them. Absorption costing is required for external financial reporting, while marginal costing is used only for internal decision making.

So the methods differ in their treatment of fixed costs, objectives, use of financial statements, income measurement and utility for decision making. Both have their place and purpose within an organization.

Table 4: The following list highlights some distinctions between absorption and marginal costing:

Point of Difference	Absorption Costing	Marginal Costing
Meaning	One costing method known as the cost of absorption counts both fixed expenses and variable costs as a component cost.	Marginal costing is one of the best costing approaches that only uses variable costs as a commodity expense.
The Nature of Overheads	Manufacturing, distribution, and sales & administration have drastically different absorption costs for overheads.	Overheads have the characteristics of fixed and variable costs for marginal costs.
How is the revenue calculated?	Sales are reduced because fixed costs are considered in product costs.	The ratio or (P/V ratio) of profit volume is used to calculate profit in the marginal costing method..
Identifies	Cost for each unit.	Cost for the next unit.
Stocks for opening and closing	Each product unit is the main focus of absorption costing, and changes in stock opening or closing have an impact on the cost per unit.	Marginal costing focus is on the next unit, the cost per unit is not influenced by shift in opening or closing stocks.

Marginal Costing importance:

The following list of manufacturing industry marginal costs is pertinent:

- Marginal costs are calculated using them, and their effects on output value are also considered.

- Working with and comprehending the marginal cost methodology is simple.
- A company's management can make quality decisions for its manufacturing divisions with the help of contribution statistics.
- There is no difficulty with the overabsorption or under absorption of overheads in marginal costs. 5) Complex and misleading assertions are avoided by marginal costs.
- Because operational costs are not covered by unsold inventory or inventories, earnings in marginal costs are not inflated.

Importance of Absorption Costing

The following examples show how significant the cost of absorption is:

1- The cost accountant of a firm can measure a price above the whole cost by including fixed costs in the calculation of the overall cost of the product.
2. The costs and revenue are equal in terms of absorption costs.
3. The fixed costs assessed for processing and accounted for in the closing stock valuation.
4- There are fewer changes in earnings when gains fluctuate but demand remains consistent.
5- The spending unit with the highest rate of overhead absorption receives the overhead costs.
6 - At the expense of absorption, profit becomes a function of production rather than revenue.
Here are some of the key importance's of absorption costing:

1. Provides actual product costs - Absorption costing allocates both fixed and variable costs to products. This gives management a true picture of the actual costs involved in producing products.

2. Valuation of inventory - By including an appropriate share of fixed costs, absorption costing provides accurate values for work in process and finished goods inventory. This is important for financial reporting.

3. Financial reporting - Absorption costing is required for external financial reporting in accordance with GAAP and IFRS accounting standards. It provides cost and profit figures for the income statement and balance sheet.

4. Pricing decisions - Management can use the full product costs under absorption costing to determine appropriate selling prices that will cover costs and contribute to profits.

5. Tax implications - Since taxes are based on actual reported profits, absorption costing is important for determining tax liabilities.

6. Budgeting and forecasting - Absorption costing provides accurate cost information that can be used to prepare budgets, forecasts and cost projections.

7. Performance measurement - By allocating fixed costs to products, absorption costing can be used to measure the true financial performance of individual products and profit centers.

8. Establishing baseline costs - Absorption costing sets a standard for the full costs of producing products, which can then be compared to actual results to measure performance.

9. Supporting business decisions - The accurate cost and profit information provided by absorption costing supports informed decisions regarding businesses operations, strategy and planning.

So in summary, absorption costing's importance lies primarily in providing actual product costs, valuations and financial information that is required for reporting, decision making, pricing, budgeting, performance measurement and supporting overall business strategy.

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

Accounting System: An organization's system for managing and coordinating accounting records in order is known as an accounting system. Either a manual or computerized accounting system is available. The company's revenues, expenses, and other business activities are monitored or mapped using the accounting system. Evidence that negatively impacts the company's finances is preserved by its effective or effective accounting system.

In other words, a company's management can ensure daily monitoring and administration of their financial-related activities thanks to the accounting system. The accounting method can be used to prepare budgets and all future business growth and progress planning in addition to helping management create a summary to be presented at meetings.

business uses the various accounting systems listed below.

a. Managerial Accounting: Administrators can benefit from administrative accounting's useful knowledge for future operations and strategy management. Internally, even within the business, administrative accounting is useful. The corporation will set prospective targets for its business activities with the aid of management accounting. It is also advantageous to use management accounting to decide whether or not to grow commercial operations. Lean accounting as well as cost accounting were used for management costs. While management considers the lean accounting mechanism to determine how to cut costs and remove energy waste while boosting value, cost accounting analyses the various expenses of manufacturing goods utilized for more product-related decision-making.

b. Inventory Accounting: The manufacturing company can schedule and track the inventory or storage amounts for the goods by using inventory management. Ordering time and other associated costs are reduced by the dependable and effective inventory management method. Measuring the appropriate or acceptable units that are present in the company's store or warehouse is a component of inventory accounting. Barcode monitoring and RFID that track and manage the volume of inventory for the manufacturing department, are the company's most popular inventory accounting services.

c. Industry Specific Accounting: According to its many market activities, the corporation adapts the industry's core accounting. For instance, a production business' accounting procedure differs from legal accounting. Each of the many organisations has a unique business operation and employs a totally separate accounting system, and each has requirements that must be met about that accounting system.

The Swipes 50 Ltd. accounting system can be expanded by precisely and effectively handling the management strategy for its corporate processes and even for each department involved in product development. When the board periodically monitors or examines a company's accounting system, the full task is completed in a respectable manner.

5- Swipes 50 Ltd. has three options for enhancing its accounting systems, which are described below:

1- By entering all the information into the computerized accounting program: A reliable computerized accounting software will report the data that related to the organization's financial activity and can be utilized for reporting. An accounting system efficiently organizes and records accounting knowledge. Swipes 50 Limited would permit the accounting.

program that records all of the company's data in accordance with the law and may be used by both the top management and the workforce to make decisions. A system of accounting records is used to provide the organization with detailed information, including annual reports. The accountant completes the comprehensive financial accounts each year and records them. The accountant incorporates all business procedures into the programme, and the programme changes the reports or transactions automatically. By doing this, errors and omissions in the transactions are eliminated. Using the proper business software and hardware, the organisation can access this error-free transaction information for reporting and usage in the decision-making process.

2- Cloud Accounting: Cloud accounting is one of the best advancements in bookkeeping and accounting. By using cloud accounting, the firm can reduce time waste and improve the sensitivity and efficiency of its business processes. The business might use cloud accounting software to keep records on certain devices. Swipes 50 Ltd. will protect important data and the company's financial reports with the use of cloud accounting solutions. The cloud offers storage servers in two or three places where data can be easily accessed from many locations. Natural disasters frequently result in the destruction or corruption of encrypted software, and the backup servers are permanently lost. With cloud accounting, there is little downtime, full storage is available, upgrades happen automatically, and nothing needs to be activated.

3- Regular accounting system review: If not managed and verified appropriately, accounting procedures might become ineffective and useless. Regular system checks by Swipes 50 Ltd. ensure that financial transactions are accurately recorded and that anomalies are avoided. The accounting process, which allows for quick and accurate access to records or information, is made more effective by routine analysis. To assist the business in making plans, analyzing results, and monitoring performance, the right accounting system will generate several integrated reports. Using external and internal evaluations, the accounting system guards against or monitors errors and fraud.

Swipes 50 Ltd. can expand the accounting system by utilizing the three types to record data or information in a structure that can be employed for upcoming decision-making procedures for the growth and expansion of the organisation.

6- managing accounting positions is crucial for a manufacturing organisation.

The management of accounting jobs is necessary to ensure that the production firm meets its goals and deadlines. Managerial accountants are essential to a company's ability to handle every situation correctly. Using the proper financial facts, management accountants support organizational decision-making as well as administrative planning. Production, hours of service, hours of finding and tracking raw materials, accounting, and other challenging to use and manage computer systems are all used by manufacturing organisations. The production company's procedure is difficult. The top management receives specialized information from the management accountant for use in the decision-making stage of the business operations after an efficient analysis of the complete production process. The accountant creates management reports and accounts using free technologies that give top management precise and useful financial and statistical data for making both long- and short-term choices. The accountant also keeps track of, recognizes, documents, and interprets data that helps the entire department of manufacturing businesses successfully complete their tasks and goals. The management accountant's primary responsibility is to provide documentation for the internal financial system of the organisation, not for use outside the organisation.

<u>In a production business, the management accountant's role is as follows, as explained below:</u>

1- It aids the manufacturing organisation in predicting future market and key industry trends, which is done with the help of the management accountant.

2- It aids the business in decision-making processes such as purchasing, where specific factors are considered before determining whether a material may be produced.

The management accountant makes predictions regarding the financial flows and the impact of the cash balance on the business's operational processes. To select how cash and resources are used to produce the projected profit from their profits, the business manager uses schedules and estimates created by the management accountant.

1. Using management accounting, the firm accountant may quickly determine the rate of return necessary to decide whether to invest in the project. The return rate is used to assess the investment's profitability for the company in the future.

2- The manufacturing sector employs activity-based costing with the aid of management accounting to determine what output, how much they can spend on a commodity, and what goods are profitable and frequently favored by clients.
3- The management accountant employs methodical methods that enable them to generate or develop favorable variances and manage the unfavorable ones that have an impact on a business's expansion.

Conclusion

The study's findings were that the company obtains the accounting data needed by the management accountant for a commercial enterprise's decision-making process through a variety of management accounting tools and technologies. Where its rivals are engaged in fierce competition, Swipes 50 Limited must integrate manufacturing technology for sustainability and growth with management accounting tools. The corporation develops a cost-effective framework for its products by utilizing margin and absorption expenses. The term "cost of absorption" refers to a gross profit beyond the market's marginal cost, which benefits the corporation.
The managers of an organisation can utilize the information from the various accounts to create strategic priorities and plans for the expansion and improvement of the business. For an organisation to supervise and drive a company's management in the direction of profitability, a management accountant is a critical position. Financial accounts are set up to give sufficient and trustworthy data through the accounting framework used to evaluate the company's financial plans and planning effectiveness.

References

1. Adamyk, O., Adamyk, B., & Khorunzhak, N. (2018). Accounting for software development costs and the cost of capital: Evidence from IPO underpricing in the software industry. *Journal of Accounting, Auditing & Finance*, *23*(2), 271–304. https://doi.org/10.1177/0148558x0802300208
2. Berry, & Otley, D. T. (Eds.). (2019). Management control theory. (2020). ROUTLEDGE.
3. Chen, T., Goh, J. R., Kamiya, S., & Lou, P. (2019). Marginal cost of risk-based capitaland risk-taking. Journal of Banking & Finance, 103, 130-145.
4. Collier, P., & Zwikael, O.(2019). Operating strategic management accounting systems. Strategic Management Accounting, 297–306. https://doi.org/10.4324/9780080937922-29.
5. Gao, G., Liu, X., Sun, H., Wu, J., Liu, H., Wang, W. (Walker), Wang, Z., Wang, T., & Du, H. (2019). Marginal cost pricing analysis on tradable credits in traffic engineering. Mathematical Problems in Engineering, 2019, 1–10. https://doi.org/10.1155/2019/8461395
6. Keen, P. G. (2019). Decision Support Systems and the marginal economics of effort. Macro-Engineering and the Future, 203–223. https://doi.org/10.4324/9780429049996-12.
7. Faello, J. (2016). Enhancing the learning experience in intermediate accounting. Research in Accounting Regulation, 28(2), 123–127. https://doi.org/10.1016/j.racreg.2016.09.006
8. Labro, E. (2019). Costing systems. Foundations and Trends® in Accounting, 13(3–4), 267–404. https://doi.org/10.1561/1400000058
9. Mahesha, V. (2022). A comparative study of activity based costing and traditional costing as a fragment of pricing. SAARJ Journal on Banking & Insurance Research, 11(2), 1–9. https://doi.org/10.5958/2319-1422.2022.00006.6
10. Mahesha, V. (2022). A comparative study of activity based costing and traditional costing as a fragment of pricing. SAARJ Journal on Banking & Insurance Research, 11(2), 1–9. https://doi.org/10.5958/2319-1422.2022.00006.6
11. Modugno, G., & Di Carlo, F. (2019). Financial Sustainability of Higher Education Institutions: A challenge for the accounting system. Financial Sustainability of Public Sector Entities, 165–184. https://doi.org/10.1007/978-3-030-06037-4_9