COVER PAGE AND DECLARATION

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Introduction

Acknowledging, measuring, analyzing, interpreting, and presenting information to managers is the process of managerial accounting (Achleitner and et al., 2014). This information is used to further the organization's goals and objectives. A manager may make sound decisions and coordinate the company's activities with this data at hand. The company's management accountant must establish a number of events and operational indicators as a frame of reference for interpreting the data so that it may be used to the company's advantage. The cost of goods produced is one example of a managerial problem that must be addressed in order to produce external financial statements in accordance with US GAAP. Learning about managerial accounting processes and different accounting systems is the goal of this study. The research is based on Swipe 50 Limited, a company that creates innovative laptop screen protectors. Based on a case study in which a profit statement was generated utilizing marginal and absorption costs for Swipe 50 Limited, the authors explain their findings. Explain how these two approaches are distinct from one another. Explain the three main types of accounting and the value of the work done by managerial accountants in a manufacturing firm.

Company profile

Swipes 50 Limited creates a premium screen protector for portable devices. The Plus Swipe is a screen protector designed to keep laptop displays scratch-free. After three years in business and with a more streamlined production process, the board of directors has decided to zero in on the company's revenue and expenses.

Aim of the research

The point of The Reason Why and the Situation By completing this task, you will gain insight into how various accounting techniques paint varying representations of a business based on the same information.

The report concludes with a summary of their internal financial data. Management accounting, in contrast to financial accounting, is focused with preparing financial information for internal examination and decision making by corporate owners, directors, and managers, rather than for

release to the general public. Several crucial methods for gauging the company's operational effectiveness can be found within the realm of management accounting.

MAIN BODY

A. Income Statement

Absorption costs - It is a costing method that includes all expenses and expenditures associated with producing a specific product. This procedure is essential for external reporting under generally accepted accounting principles (GAAP). To calculate the cost of finished goods using the absorption method, which includes costs such as labor and materials.

- Direct materials - These materials are used to calculate the cost of finished products.
- Direct Labor - The necessary factory labor cost to construct a product.
- Variable manufacturing overhead - It operates to provide manufacturing company's facility in an efficient manner. For instance, electricity and supplies for production equipment (Ahrens and Khalifa, 2015).
- Fixed manufacturing expenses - The costs associated with operating a manufacturing facility that are independent of production volume. Such as, rent and insurance.

Managerial Accounting Assignment Submission

A. Profit Statements for Swipes 50 Limited for the months of February and March:

i) Profit Statements using Absorption Costing for February and March

Profit Statement (using Absorption Costing)		
Swipe 50 Limited		
	February	
Sales (11,500 Units @ Euro 22ea)		**€ 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
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**

(Walther, 2010)

Profit Statement (using Absorption Costing)		
Swipe 50 Limited		
	March	
Sales (15,500 Units @ Euro 22ea)		**€ 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
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**

(Walther, 2010)

ii) Profit Statements using Variable Costing for February and March

Profit Statement (using Variable Costing)		
Swipe 50 Limited		
	February	
Sales (11,500 Units @ Euro 22ea)		€ 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
Variable Manufacturing Margin		**€ 206,172**
Less Variable Selling & Administration Expenses		€ 36,225
Contribution Margin		**€ 169,947**
Less Fixed Expenses		
Fixed Selling & Administrative Expenses	€ 8,275	
Fixed Production Overheads	€ 28,600	€ 36,875
Net Profit for February (Using Variable Costing)		**€ 133,072**

(Walther, 2010)

Profit Statement (using Variable Costing)		
Swipe 50 Limited		
	March	
Sales (15,500 Units @ Euro 22ea)		€ 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
Variable Manufacturing Margin		**€ 278,178**
Less Variable Selling & Administration Expenses		€ 48,825
Contribution Margin		**€ 229,353**
Less Fixed Expenses		
Fixed Selling & Administrative Expenses	€ 8,275	
Fixed Production Overheads	€ 28,600	€ 36,875
Net Profit for March (Using Variable Costing)		**€ 192,478**

(Walther, 2010)

B. Profit Reconciliation Statement calculated using Absorption Costing to that using Variable Costing

Reconciliation Statement		
Swipe 50 Limited		
	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**

(Ghosh, 2009)

C. Explain how each method differs from others and the significance of each method.

Knowing what is meant by Managerial Accounting will help with understanding Absorption and Variable Costing. Management accounting, also known as cost accounting, is the process of analyzing a company's expenses and profits in order to generate confidential financial reports for use by the company's upper management in making strategic and operational decisions. The word "internal" is key here because these reports are rarely shared or used by anyone outside the firm.

Management relies heavily on these financial records to make informed decisions, but managerial accounting is also a powerful tool for looking forward and setting goals, particularly in the long term. Moreover, management accounting is useful for developing company spending plans. As a result of its usefulness in short-term and long-term forecasting, planning, and budgeting, managerial accounting has proven to be an essential tool for assisting management in making prudent financial decisions.

The two main foundational approaches in Managerial Accounting, variable costing and absorption costing, each have their benefits and drawbacks. However, it's important to note right off the bat that only Absorption Costing is permitted for any external financial statement reporting of a corporation under Generally Accepted Accounting Principles (GAAP). However, the company can decide whether to use absorption costing or variable costing to calculate and report profits.

In order to appreciate the differences and similarities between absorption costing and variable costing, it is necessary to first grasp the concept of fixed overhead costs. According to most

definitions, fixed overhead costs are those that remain constant regardless of output. Rent, insurance, full-time staff pay, and equipment leasing fees are all examples of fixed overhead costs. Keep in mind that these costs persist irrespective of changes in sales or output levels. To cite: (Noreen et al., 2016)

In the following sections, we'll examine both Absorption Costing and Variable Costing to see how they stack up against one another.

Absorption Costing, short for Full Absorption Costing, is a method for allocating a portion of fixed overhead expenses to the final cost of goods produced. As a result of this simple computation, a per-unit cost basis can be established based on production and sales figures for the reporting period. This is the consequence

is the price tag attached to making and selling one unit. In absorption costing, fixed costs are divided evenly across all output in a given time period.

This method of costing, also known as complete costing, accounts for all of the costs associated with producing a product, including raw materials, employee wages, and both variable and fixed overhead. The per-unit cost may be calculated using this method since the fixed overhead costs are spread over all of the manufactured units. Cost of products sold and inventory costs are the two primary types of fixed overhead that this process often reveals. Absorption costing is useful because it helps businesses account for both fixed and variable production expenses in setting prices. It guarantees that product costs are taken into account when setting prices. The need to manually categorize expenses as either "fixed" or "variable" is eliminated. Since all advertising and promotion costs are accounted for in the same time frame, this style of accounting also facilitates precise profitability analysis. Some of the period costs do not have any future significance and should not be included in the cost of product and inventory, which is the main shortcoming of this method.

The Absorption Costing method is helpful when finished goods are held in stock but not sold throughout the reporting period. Each item in stock has a value that includes some portion of the fixed-overhead expense since a per-unit amount has been set for fixed-expenses. So, products are not counted as an expense until they are sold and no longer in stock.

While this is preferred by some businesses because it boosts profits for a given reporting period, it has the potential to artificially inflate profit amounts during that period by preventing the full deductibility of fixed overhead costs regardless of whether all, none, or a portion of the manufactured goods have actually been sold. For the reporting period's profitability analysis, this can be deceiving.

Unlike Absorption Costing, which treats fixed overhead as a per-unit cost, Variable Costing treats it as a flat rate. Furthermore, all production supplies, such as raw materials, packing, and shipping, are accounted for under this costing strategy. All fixed expenses incurred throughout the measurement period are included. In particular, the revenue amount is reduced by the sum of these expenses rather than having them added on a per-unit as-sold basis. Reviewed by Nora et al. (2016). When calculating the true cost of manufacturing, only the variable expenses should be factored in. In this costing method, only the variable costs of manufacturing are considered when determining product prices and inventory values. In contrast to absorption costing, this method treats all fixed overhead as a single expense that gets reported as a separate line item on the income statement. The primary advantage of variable costing over absorption costing is that it isolates the most important expenses incurred during the creation of a product or service. In addition to aiding in the creation of an income statement through the incorporation of a "contribution margin," this method of costing is also useful in the context of a "cost volume profit analysis" (CVP). When conducting a CVP analysis, absorption costing is useless.

Therefore, profits will not be reflected in the report until after the reporting period's expenses have been deducted. So, the company still has to account for all production costs even if there is no sales revenue from products made during the reporting period. Of course, once the manufactured items are sold from stock, the company will record only income with no corresponding expense.

Therefore, we must disclose full payment of all fixed overhead expenses in the reporting period in which they occur, which is a drawback of variable costing. In other words, the report may show a lower profit for the reporting period because you need to show your complete overhead-expenses even when maybe none or only some of your products are sold. This is because the full cost of fixed-overhead-expense must be deducted regardless of whether or not any of the products produced are sold. Although revenue is down due to unsold inventory, all costs have been accounted for.

D. Three ways the Swipes 50 Limited can improve its Accounting Systems

Managerial accounting aids in the forecasting and planning processes of a company by providing useful information on production performance. Managerial accounting is a method of controlling any discrepancies between actual and planned outcomes. As a result, Managerial Accounting is a powerful instrument for resource planning when its attention is directed toward the future. Its capacity to zero in on immediate outcomes also makes it a useful instrument for controlling available resources. (Warren et al., 2019)

Managerial accounting's value as a performance measuring tool for attempting to ensure manufacturing success and profitability cannot be overstated. Particularly in the manufacturing sector, a strict management accounting system should be implemented as soon as possible to ensure that all expenditures and expenses are effectively accounted for and regulated. According to research (Patankar, 2019)

Swipes 50 Limited, like many other businesses, has developed some rudimentary form of managerial accounting. However, more and more granular details are required to improve the Accounting System's efficiency, allowing for more effective use of the data by management in making crucial and strategic decisions. I believe that Swipes 50 Limited's Managerial Accounting System may be enhanced in three key areas.

Reporting on the Budget: Comparing Actual and Projected Results

The Managerial Accounting System is not an event or a procedure that takes a few minutes to complete. Neither can we minimize the significance of the control process through Managerial Accounting, nor can we ignore the necessity of forecasting/budgeting/planning.

To some extent, forecasting and/or budgeting serve as the yardstick by which the success of a corporation is judged. In order to:

- make plans
- evaluate the performance of departments
- help remove deviations
- minimize future uncertainty

• help build more controlled future planning Managerial accounting requires this baseline as part of its regulatory framework.

Managerial accounting systems that include budgeting and forecasting are crucial for every company that wants to succeed. It might help you reach your profit goals by limiting any unnecessary spending during the allocated year and keeping your eye on the quality of your output. Key performance indicators (KPIs) for employees, managers, and entire departments can be developed with the help of budgeting, which guarantees that money is spent on the things that matter most in terms of achieving the company's strategic goals. To cite: (Noreen et al., 2016).

Increased reliance on Managerial Accounting

Management Accounting tools like Variable and Absorption Costing aren't the only ones that can help bridge the gap between management and financial results.

Swipes 50 Limited will benefit from the evaluation and integration of cost information gleaned from the application of management accounting techniques like cost volume profit, standard costing, marginal costing, and cash flow management. If you want to know how many units you need to sell before breaking even, or how many you need to sell to make a certain profit, you can use data from a cost volume profit analysis. (Warren et al., 2019)

Thirdly, implement activity-based pricing:

According to the provided information outline for Swipes 50 Limited, the company only produces a single product, so all of its overhead-expenses/costs must be applied specifically to the manufacturing of that product. However, there may be some overhead costs that are unrelated to the product and/or are happening for no reason at all.

By switching to an activity-based costing method, we can break out departmental expenses and add only the necessary overhead for each product. The entire overhead can then be broken down into value-added and non-value-added components. This method will reduce or do away with the need for tasks that don't directly contribute to the company's bottom line. In addition, a company like Swipes 50 Limited will be able to determine the precise profitability of each new product thanks to the data provided by activity-based costing.

E. The value of a managerial accountant in a factory setting

A management accountant's responsibilities span the entire organization, making their job crucial. As reported by several researchers (Kulkarni et al., 2018),

Management accountants are responsible for gathering and reporting financial information from potentially multiple departments across an organization. Budgets and predictions must be monitored and analyzed so that funding suggestions can be made. Raw materials, labor, production, sales, marketing, sales, advertising, and the cost to run the business internally are all estimated in this final segment.

The management accountant is responsible for analyzing the company's working capital and available cash and reporting those findings to upper management and the Board of Directors. This requires close coordination with all relevant business divisions.

Thus, the management accountant is the primary information provider for the Board of Directors and the Chief Executive Officer.

The management accountant's job is to provide input into decision-making by keeping tabs on the internal expenses of any business process that affects the company's ability to make production, operation, and investment choices. In order for businesses to properly allocate resources between production, sales, and investment, they require management accounting and the expertise of a management accountant. To cite: (Noreen et al., 2016).

Therefore, a management accountant's contribution to an organization is vital. A management accountant plays a crucial role in the success of a firm, and even a small error in their analysis could have dire consequences. The management accountant is responsible for enforcing internal costing rules and GAAP consistently.

When it comes to running a business, timing is everything. Timeliness is essential in many of a management accountant's duties, such as forecasting, budgeting, and reporting, so that plans can be put into action promptly in times of crisis. Market volatility calls for timely forecasting in order to account for it. It is crucial that the budget accurately reflects the available operating capital and the exposure to market risks. Management accountants must double-check all data for accuracy before submitting reports to ensure informed business decisions.

The ultimate goal of a management accountant is to inform company management in advance so that they can make financial decisions taking into account available resources, taking into account factors such as the political situation that could affect the market, inflation, other exposures in the market, competition, cost of labor, raw material, internal operations, coordination among different departments within a company, and its interaction with the rest of the business world. As reported by several researchers (Kulkarni et al., 2018),

A manufacturing company's unique complexity makes the management accountant's job crucial, if not more so than in other industries.

Conclusion

The goal of managerial accounting is to help top-level executives and other decision-makers make more informed strategic decisions and move the organization closer to its stated goals. The information collected encompasses all areas of accounting pertinent to the management of corporate activities in regards to the prices paid for goods and services. Managerial accountants utilize budgets as a gauge of the organization's planned activities. Managerial accounting shines in high-pressure, fast-moving markets where quick judgments are essential. These decisions could involve a pricing plan, a budget, or the management of cash flow. Managerial accounting's straightforward analysis of operational information provides immediate clarity.

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