COVER PAGE AND DECLARATION

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Student's Full Name:	Haitham Ahmed Ali Attia Said
Student ID:	EIU2021042
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E-SIGNATURE: Haitham Ahmed Ali Attia Said

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Introduction

Managerial accounting is a subfield of accounting that focuses on the identification, evaluation, quantification, and classification of accounting information utilized by the management accountant in making strategic decisions about the company's growth and output. Management accounting ensures the smooth operation of the company's financial resources. This evaluation makes use of the company's management accounting tools and methods. Management accounting software allows businesses to complete their projects on time and under budget. Only trained experts can effectively implement these tools and improve the company's current methods of operation. Because the two approaches employ different amounts for fixed expenditures, the marginal expense and the absorption expense are independent measures of profitability or income.

This paper also details three simple and effective ways that Swipes 50 Limited might improve its accounting infrastructure. This article will also explain why a manufacturing company is crucial for controlling accounting staffing. This study was based on data collected by Swipes 50 Limited, a manufacturer of a specialized screen protector for laptops.

Scenario

Swipes 50 Limited, our hypothetical company, makes a customized screen protector for portable electronic devices, specifically laptops. The Plus Swipe is a laptop screen protector designed to keep your screen in pristine condition. After three years in business, the company has perfected its manufacturing process, and its board of directors has decided to shift its attention to revenue and expenses. Therefore, Chief Financial Officer Tamara J. Blooms wishes to concentrate on product pricing. Her research interests include the effects of absorption and variable costing on business revenue and profitability.

1-Prepare a profit statement for Swipe 50 Limited for the months of February and March using:

a- Absorption Costing

b- Variable Costing

a. Absorption Costing, also known as Full Costing, accounts for all expense incurred in producing a product, both direct and indirect. The marginal cost, often called the opportunity cost, varies widely. The fixed and variable costs are usually understood. When calculating product net profits, the absorption costing method does not differentiate between variable and fixed expenses

(Labro, 2019). All variable and fixed expenses are used up or recovered in absorption costing. It also suggests that fixed costs are associated with things, which could mean that all production expenses, whether variable or fixed, are included in the price of the item.

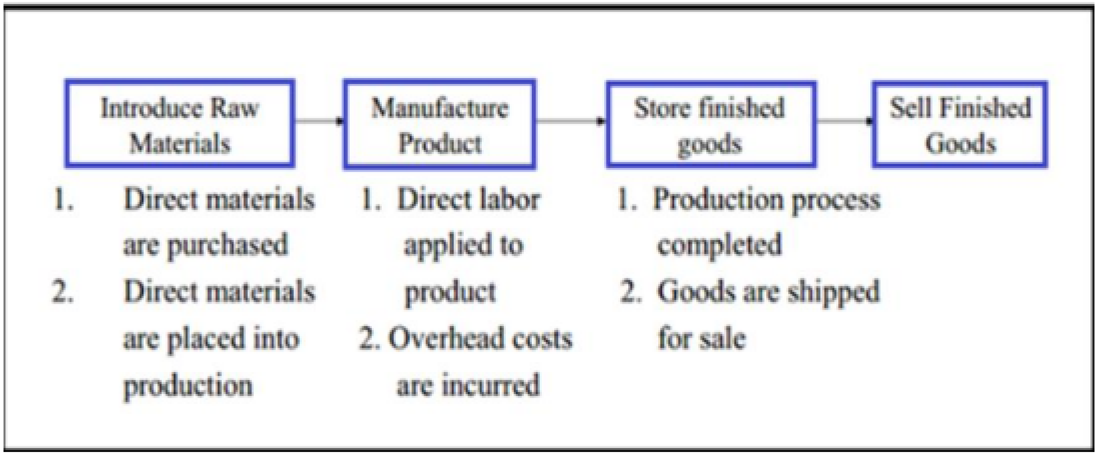

Figure 1: Absorption Costing

b. Unit costs are determined using marginal costing, wherein only the marginal cost is taken into account. Simply said, this method of accounting simply allocates direct expenses and overheads to inventory and charges for gross overheads at the time they are incurred. The marginal cost is calculated by isolating the difference between the amount spent on variable and fixed expenditures. In other words, it serves as a crucial resource for the automobile sector when making vital choices. Fixed costs are not deducted at all from the gross contribution for the period (Gao et al., 2019), while variable costs are proportional to the marginal cost units of the commodity expense. Management may make informed judgments and take into account appropriate cost structures with the help of marginal costing, the foundational method.

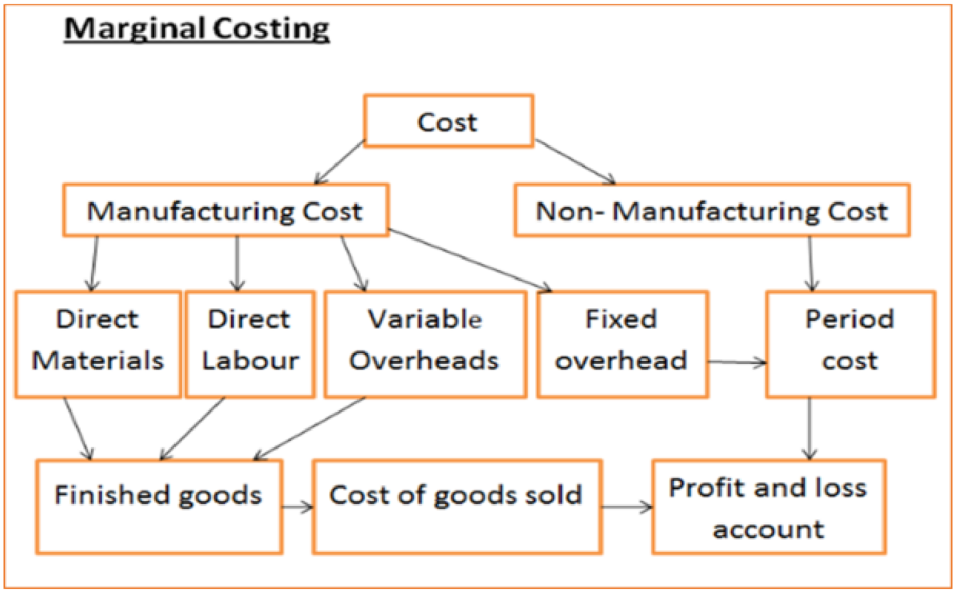

Figure 2: Marginal Costing

The table below compares the many approaches to determining product costing:

Particulars	Marginal or Variable	Absorption
Direct Materials	Include	Include
Direct Labor	Include	Include
Overhead: Variable Fixed	 Include 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 1: Product costs are calculated differently under each method:

Marginal Costing or Variable Costing

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

Table 2: Profit Statement for Swipe 50 Ltd. for the months of February and March

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 Production Overhead		7.300	8.500	0.365	0.425
Total Unit Product Costs		47.800	57.250	2.390	2.863

Table 3: Product Unit Cost

Explanation of Selling and Administrative Expenses

For February: € 44,500

Variable Selling and Administrative Expenses: € 44,500 X 25% = € 11,125

Fixed Selling and Administrative Expenses: € 44,500 X 75% = € 33,375

For March: € 57,100

Variable Selling and Administrative Expenses: € 57,100 X 29% = € 16,559

Fixed Selling and Administrative Expenses: € 57,100 X 71% = € 40,541

Absorption Costing or Full Costing

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 & Admn. Expenses	€ 44,500.00	€ 57,100.00
Operating Profit	€ 1,82,750.00	€ 1,99,658.75

Table 4: Profit Statement for Swipe 50 Ltd. for the months of February and March

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

Table 5: Product Costs Unit

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

Depending on the desired level of detail, an absorption costing-based income statement may present variable direct costs and fixed direct costs as separate line items, or it may present a combined COGS for both categories. Regardless, variable direct and fixed expenditures

Subtracting expenses from revenue yields gross profit.

Absorption costing causes an increase in COGS and a decrease in gross profit per unit produced. This would increase the per-unit breakeven cost for businesses. The end consequence is a slight increase in price for consumers. Moreover, it implies that businesses' gross profit margins will be lower.

Absorption costing's impact can be different from one sector to the next. The mortgage on a manufacturing facility must be paid every month regardless of whether or not the company produces any goods. A company's gross profit may rise once it pays off its mortgage or reaches the end of the depreciation schedule for a key piece of manufacturing equipment.

The absorption costing method is commonly used by companies that track COGS. For compliance with GAAP, this is a necessity. Most external auditors and financial stakeholders would require it for reporting purposes. Depending on their legal structure, small businesses may be compelled to employ absorption costing while filing their taxes.

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

Table 6: Statement to Reconcile Profits under Marginal and Absorption Costing

Analyze: Different costing methods are used by the management accounting methods and techniques for determining the unit cost of the product. The fluctuation in operational profit or revenue can be traced back to the fluctuation in the value of inventory or closing stock. February's operating profit or income is EUR 1,82,750.00 and March's is EUR 1,99,658.75 at absorption cost, but they are EUR 1,72,025.00 and EUR 1,91,830.00 at marginal cost, respectively. Therefore, the cost of absorption, as opposed to the marginal cost, is seen as the preferred strategy (Steccolini, 2019). Therefore, this results in increased profits over the marginal costing method.

Recommendation: Both methods are suitable for calculating costs and returns for a company engaged in product manufacturing. Since the profit from absorption costing is greater than the profit from marginal costing, we may conclude that this is the most appropriate costing approach for Swipes 50 Limited. All production expenses, both fixed and variable, are accounted for in an absorption costing system, making it a very effective costing method (LIU & PAN, 2018).

3. How each method differs from other method and explanation the importance of each method

Management accounting is the subfield of accounting that prepares and delivers organized financial data to upper management for use in strategic planning, operational management, and policymaking.

Characteristics

Management accounting's key concerns include cost allocation to products and services, cash management or budgeting, and financial forecasting. Management accountants utilize cost allocation methodologies to assign various business charges to each item generated by the company.

The goal of cash management and budgeting is to plan for all potential expenditures and ensure that the revenue generated by the business is sufficient to cover them.

People categorization

Traditional cost allocation methodologies and management accounting include job costing, process costing, and activity-based costing. With the help of job costing, business owners can allocate funds to specific projects.

Management accounting provides business owners with a way to monitor the health of their company. the actions Management accounting is crucial, despite the fact that many entrepreneurs shudder at the thought of numbers. little attention paid to internal awareness planning Using information from within the company, business owners may better focus on making their operations better. Company procedures or corrective processes are implemented outside of budgetary constraints. Inadequate production operations can result in a loss of capital, which can be measured through management accounting.

Owners of smaller companies should give some thought to using a computerized management accounting information system. Financial spreadsheets for data entry and basic profit measurement can be created with relative ease using this approach. As small businesses grow, they'll need to implement formalized management accounting systems.

Managerial accounting has been shown to be an extremely useful tool for forecasting and planning, particularly long-term planning, thanks to the wealth of economic data it provides to management. Managerial accounting is also useful for setting company budgets. In conclusion, the benefits of managerial accounting in forecasting, planning, and budgeting have made it clear that it plays a critical role in assisting management in making prudent financial decisions.

Two primary ways to accounting are the cash method and the accrual method, both of which are used to keep track of and report a company's sales and expenses over an accounting period. domain of accounting.

Absorption costing:

Complete costing, as employed in Generally Accepted Accounting, is similar to what you're used to. The bare bones. Absorption costing is a method used by businesses to account for every expense related to production, whether they be direct or indirect.

Fixed and variable manufacturing costs, as well as commodity prices The total amount of variable expenses can and will change over time. In contrast to variable costs, fixed expenses do not increase in direct proportion to higher levels of activity.

Variable costing:

Often known as direct costing, treats all fixed production expenses as variable labor costs. Costs incurred within the time period for which reimbursement was granted. Businesses that use variable costing do not factor in fixed costs at all. The production expenses and the selling price of the final product are the same. This fixed production expense is justified because:

These expenditures would be made regardless of whether or not the plant was operational. As a result, these fixed expenses are unrelated to output generation. a The video below explains the basics of variable pricing. Absorption and variable costing should be linked in terms of the gap between their respective net incomes. Because of shifts in stock Presuming there is a link between the two; Yearly input was higher than annual revenue, and under variable costs rather than absorption costing, we anticipate a lesser profit before federal income taxes. Revenue before taxes is greater under variable costing than under absorption costing if stock levels drop below zero and profits exceed demand.

Significance of marginal cost

The following are examples of marginal costs that are relevant in the manufacturing industries, highlighting the importance of marginal costing:

- One can utilize marginal costs to determine what the marginal costs are and how they affect the output value.
- The marginal cost method is simple to apply and comprehend, which is a big plus.
- Three, management can improve production quality with the help of information gathered from employees' contributions.
- Over or under-absorption of fixed costs does not arise in marginal costing.
- Five- Marginal expenses avoid convoluted and misleading claims.
- Earnings are not inflated in marginal costs since unused inventory does not cover operational expenses.

The Value of Absorption costing:

The following examples highlight why the absorption cost is so crucial:

- A company's cost accountant can more accurately gauge how much a product is worth by including in fixed costs as part of the overall cost calculation.

- Absorption expenses are the costs balanced with the revenue, which is the correct stance to take.
- The closing stock valuation incorporates the fixed fees charged for processing.
- Earnings fluctuations are smaller if demand is stable but profits are unpredictable.
- The overhead absorption rate is used to shift the overhead costs to the expenditure unit.
- Instead of being a result of revenue at the expense of absorption, profit is now a function of production.

4. Explain three ways Swipes 50 Ltd. can improve its accounting systems

An accounting system is a set of procedures used by businesses to keep track of financial transactions and report on them in a way that can be utilized to make informed business decisions. Accounting can be done either electronically or manually. The purpose of an organization's accounting system is to monitor and regulate its financial transactions, such as its sales and expenses. Effective or efficient accounting systems monitor data that could have a positive or negative impact on a business's bottom line (LIU & PAN, 2018).

To rephrase, an organization's accounting system enables for the daily monitoring and management of all financial activities. Management can utilize the accounting approach to summarize the meeting's discussion points, create projections for the coming year, and plan for the company's growth and development (Weetman, 2019). The following are some of the methods of accounting used by the company:

Managerial accounting, or administrative accounting, provides crucial insight for shaping organizational strategy and running day-to-day operations. Even inside a single organization, administrative accounting can be of use. Management accounting aids a company in establishing possible goals for its business activities and in deciding whether or not to develop those activities. Management expenses were accounted for using a mixture of cost and lean techniques. Management uses lean accounting to decide how to cut costs and remove energy waste while improving value (Steccolini, 2019), whereas cost accounting analyzes the various expenses of manufacturing goods utilized for more product-related decision making.

Manufacturing businesses can keep tabs on product storage levels and production schedules with the help of inventory accounting. Inventory management that is both dependable and effective saves time and money by cutting down on inefficiencies in the ordering process. According to

Modugno and Di Carlo (2019), inventory accounting is the process of keeping track of how many of each item is currently stored in a company's warehouse or retail location. The production department relies heavily on the company's barcode monitoring and RFID inventory accounting services, which keep track of and regulate the department's stockpile sizes.

Industry-Specific Accounting: To better reflect the company's diverse business operations in the market, the company adapts the standard accounting practices of the industry. Accounting practices for a production company, for instance, differ from legal accounting practices. Due to their unique business operations, each of these groups requires a customized accounting solution that can accommodate their specific set of requirements (Rao, 2019).

4. State why managing accounting jobs are important in a manufacturing company.

Maintaining order in the accounting department is essential for a production company to meet its deadlines and achieve its goals. Managerial accountants are crucial to every successful business, since they ensure all bases are covered. Management accountants provide support for strategic and operational planning, as well as decision-making, within an organization by analyzing relevant financial data. Accounting and electronic systems, used in the manufacturing industry for tracking raw materials, production, employee hours, repairs, maintenance, etc., are notoriously complex and challenging to use and maintain. The procedure used by the production organization is extremely intricate. The management accountant in such an organization is responsible for conducting thorough assessments of the whole production cycle and delivering actionable insights to upper management throughout the crucial decision-making stage. For both long-term and short-term decision-making, senior management relies on the accountant's preparation of management reports and accounts using publicly available tools (Adamyk, Adamyk, & Khorunzhak, 2018). The accountant is also responsible for keeping tabs on, identifying, recording, and interpreting data that helps the manufacturing industry as a whole achieve its goals and objectives. Management accountants focus on the internal financial system of an organization rather than on reporting to stakeholders outside the company (Berry, Broadbent, & Otley, 2019). Following is a description of the duties of a management accountant at a production company:

First, The management accountant's assistance in predicting market and strategic industry trends helps manufacturers plan for the future.

Second, it aids the business in making or purchasing decisions, such as whether or not to manufacture a material after considering a number of factors.

Third, the management accountant foresees the impact of cash flow and other financial flows on the running of the business. Management accountants create or compile budget plans and forecasts for use by company executives in determining where best to allocate scarce resources in order to maximize profit (Chen et al., 2019).

Fourth, Management accounting makes it simple for the company's accountant to determine the rate of return necessary to determine whether or not to engage in the business. The rate of return is used to evaluate the potential gain from the investment made by the business.

Fifth, Manufacturing companies, with the aid of management accounting, use activity-based costing to make decisions about what to produce, how much to spend on a certain commodity, and which goods are most popular with buyers.

Sixth, the management accountant takes a methodical approach to both the positive and negative variables that impact the expansion of a company.

Conclusion

The report concludes that the organization obtains the accounting information needed by the management accountant for the decision-making process through the use of various management accounting tools and technology. In order to remain competitive, Swipes 50 Limited needs to incorporate management accounting tools and sustainable and growth manufacturing technology. Company products are priced competitively because of the margin and absorption costs. In order for a business to reap the benefits of the cost of absorption, its gross profit must be greater than the marginal cost in the market. The data gleaned from a company's separate accounts can be utilized to shape the direction of the business and guide long-term planning. Management accountants play a crucial part in any group that helps steer and monitor upper-level executives in the direction of profit. Using the accounting framework, financial accounts are created to evaluate the efficacy of the company's financial plans and strategies.

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