COVER PAGE AND DECLARATION

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Introduction:

“Management accounting” refers to the process of applying accounting techniques and principles to the management of a company or organization. In this context, management accounting focuses on the use of financial information to support planning, control, and decision-making within the administrative or executive levels of the organization.

The broader meaning of management accounting also includes financial aspects and non-financial information relevant to managerial decision making. Analyze and interpret financial data, develop and monitor performance measures, and make recommendations to assist in strategic planning and operational management.

Management accounting in this sense may include:

Strategic Planning: Which helps management accountants formulate strategic plans by providing financial analysis and forecasts. They evaluate the financial feasibility of strategic initiatives, assess potential risks and returns, and contribute to the development of long-term goals.

Cost Management: Management accountants play a crucial role in managing costs within organizations. They analyze cost structures, identify cost drivers, and implement cost reduction strategies.

Performance Evaluation: Management accounting involves evaluating the performance of various departments, projects, or business units within an organization. KPIs and financial ratios are used to evaluate efficiency, productivity and profitability. This information helps managers identify areas for improvement and make decisions to enhance overall performance.

Decision support: Management accountants provide financial analysis and insights to support decision making. They may conduct financial feasibility studies for new investments, evaluate the financial impact of alternative courses of action, and conduct cost-benefit analyses. This helps managers make informed decisions that are aligned with the organization's goals.

Risk Assessment: Management accountants evaluate and manage financial risks within an organization. They identify potential risks, analyze their potential impact, and develop strategies to mitigate or manage those risks. This can include assessing investment risks, assessing credit risk, and implementing internal controls.

In short, the importance of management accounting can be summarized in:

- Providing accurate financial information
- Supporting strategic decision making
- Cost and profitability analysis
- Financial planning and control
- Improving efficiency and effectiveness
- Internal reports and enhancing communication and communication between departments
- Risk monitoring

ProfitstatementforSwipe50Limitedforthemonthof February and March using:

A. Absorption Costing:

Absorption costing is a method of accounting for product costs that allocates all manufacturing costs, both variable and fixed, to units produced. This means that the full cost of producing a product is included in its selling price. Under absorption costing, all manufacturing costs are classified as either direct or indirect costs. Direct costs are those that can be traced directly to a specific product, such as the cost of materials and labor. Indirect costs are those that cannot be traced directly to a specific product, such as factory overhead. To allocate indirect costs to units produced, absorption costing uses a cost allocation base. A cost allocation base is a measure of activity that is related to the incurred cost. For example, factory overhead is often allocated to units produced based on direct labor hours or machine hours. Once the indirect costs have been allocated to units produced, the total cost of each unit produced is calculated. This cost is then used to set the selling price of the product.

Swipe 50 Ltd. Profit Statement Using Absorption Costing For the Months of February and March 2023**.**

Sales Revenue = total sold units * cost of every unit.

The Cost of Manufactured Goods = The Direct Materials add to The Direct Labor add to The Variable Production Overhead add to The Fixed production overheads then divided on The Total Production.

COGS = The Beginning of inventory add to Manufacturing purchase divided on the production minus The Ending of inventory (production unit– sales).

February		
The Revenue of Sales = 11,500 X 22 *Euro*		253000 Euro
The Beginning of Inventory	Zero	
Manufacturing purchase / production 12500 X 6.712	83900 Euro	
The Ending of inventory 12500 –11500 =1000 X 6.712	6712 Euro	
Less: The Cost of Goods Sold (COGS)		77188 Euro
The Gross Margin		175812 Euro
Less: The Total Selling and The Administrative Expenses	44500 Euro	
The Operating Income		**131312** Euro

March		
The Revenue of Sales 15500 X 22 Euro		341000 Euro

The Beginning of Inventory	6712 Euro	
Manufacturing purchase / production	92350 Euro	
The Inventory Ending	0	
Less: (COGS)Cost of Goods Sold		99,062 Euro
Gross		241938 Euro
Less: The Total Selling and The Administrative Expenses	57,100 Euro	
Operating Income		**184838** Euro

B. Variable Costing:

Variable costing is a method of accounting for product costs that allocates only variable manufacturing costs to units produced. It is standard practice to account for and write off fixed production expenses in the period in which they are incurred. Variable costing is a management accounting method that is used to make internal decisions. Under variable costing, all manufacturing costs are classified as either variable or fixed costs. Variable costs are those that change in proportion to the level of production. In contrast to variable costs, fixed costs do not change in proportion to changes in output. Direct materials and direct labor are two examples of such variable costs in production. Examples of fixed manufacturing costs include factory rent and depreciation on factory equipment. To calculate the variable cost per unit, all variable manufacturing costs are divided by the number of units produced. This information can then be used to set prices, make decisions about production, and evaluate the performance of different products and departments. Variable costing has a number of advantages, including that it is easier to implement and maintain than absorption costing, that it provides a more accurate picture of the relationship between sales volume and profit, and that it can be used to analyze the profitability of different products and departments. However, variable costing also has a few disadvantages, including that it does not provide a complete picture of the full cost of producing a product and that it is not the required method for external financial reporting under GAAP.

February		
The Revenue of Sales 11500 X 22 Euro		253000 Euro
The Inventory Beginning	0	
Manufacturing purchase / production 12500 X 4.424	55300 Euro	
The Inventory Ending 12500 –11500 = 1000 X 4.424	4424 Euro	
Less: (COGS)Cost of Goods Sold		50876 Euro
Less: The Variable of Selling & The Administrative expenses		36225 Euro
Margin		165899 Euro
Less: Fixed Production Overheads		28600 Euro
Less: The Fixed Selling and The Administrative Expenses		8275 Euro
Operating Income		129024 Euro

March		
The Revenue of Sales 15500 X 22 Euro		341000 Euro
The Inventory Beginning	4424 Euro	
Manufacturing purchase / production 14500 X 4.396	63750 Euro	
-The Inventory Ending	Zero	
Less: (COGS)Cost of goods sold		68174 Euro
Less: The Variable of Selling & The Administrative expenses		48825 Euro
Margin		224001 Euro
Less: Fixed Production of Overheads		28600 Euro
Less: The Fixed Selling and The Administrative Expenses		8275 Euro
Operating Income		187126 Euro

1. Variable costing is a more accurate method of measuring profit for Swipe 50 Ltd. because it only includes variable costs in the cost of goods sold. This is because fixed costs are incurred regardless of the level of production or sales. Variable costing provides management with a better understanding of the relationship between sales volume and profit. It can also be used to make better decisions about pricing and production.

Reconciliation of Profit:

Profit reconciliation, a pivotal aspect in financial analysis, delves into the intricate task of aligning profits computed through absorption costing with those derived from variable costing. This process necessitates a comprehensive examination of the distinctions in handling fixed manufacturing costs between the two methods. The inherent variability originates from the divergent approaches concerning fixed costs—either absorption into product costs in the absorption costing paradigm or classification as period costs in variable costing. This discrepancy underscores the need for reconciliation, functioning as a vital bridge that harmonizes financial reporting with internal decision-making perspectives. Consequently, through a judicious alignment of these two approaches, companies can foster a holistic understanding of their profitability, facilitating more informed and strategic decision-making processes.

Importance of Reconciliation:

The significance of the reconciliation process cannot be overstated, particularly in its role of comprehending the nuanced disparities inherent in absorption costing and variable costing methodologies. Its pivotal function is to furnish management with a profound understanding of how fixed manufacturing costs exert an impact on reported profits, thereby providing them with the insights needed to engage in more nuanced and effective strategic planning (Weygandt et al., 2022). By actively bridging the gap between these two distinct accounting methods, reconciliation becomes a cornerstone, playing a pivotal role in enhancing the accuracy and reliability of financial information. This enhancement, in turn, contributes significantly to the effectiveness of decision- making processes within the organizational framework.

In conclusion, both absorption costing and variable costing emerge as integral components within the expansive realm of financial reporting and internal decision-making. The former, meticulously aligned with regulatory standards, offers a comprehensive overview of total costs, thereby providing valuable support for external stakeholders in their analytical endeavors. On the contrary, variable costing, with its distinctive emphasis on variable costs and contribution margins, stands out as a valuable and versatile tool, primarily aiding in internal decision-making processes. The reconciliation of profits between these two methodological approaches assumes the role of a linchpin, ensuring the seamless alignment of external reporting with internal managerial perspectives, thereby fostering a holistic and comprehensive approach to financial management.

1. **Reconcile the profit calculated using absorption costing to that using variable costing.**

To reconcile the profit calculated using absorption costing to that using variable costing, we need to adjust for the difference in the treatment of fixed production overhead costs. Under absorption costing, fixed production overhead costs are allocated to units produced, while under variable costing, fixed production overhead costs are treated as period costs and expensed in the period in which they are incurred.

To reconcile the two profit figures, we can use the following:

Subject	**February**	**March**
Absorption Costing Net Income	131312 Euro	184838 Euro
Less: Fixed Manufacturing Carried Foreword (Inv. Closing) 1000 x (28600/12500))	2288 Euro	
Add: Fixed Manufacturing Carried Foreword (Inv. Beginning) (1000 X (28600/12500)		2288 Euro
	129024	**187126**

As we can see,the difference between absorption costing and Variable costing:

Based differences	**Absorption costing**	**Variable costing**
Fixed manufacturing overhead	Fixed manufacturing overhead is considered as a product cost	Fixed manufacturing overhead is considered as a period cost

Inventory	Inventory includes the fixed manufacturing overhead. Therefore the value of inventory will be high	Inventory doesn't includes the fixed manufacturing overhead. Because it considered as a period cost. Therefore the value of inventory will be low
Profit	Higher the unit of ending inventory higher will be the profit	lower the unit of ending inventory lower will be the profit
Reporting purpose	It is mainly prepared for external reporting	It is mainly prepared for internal reporting
Over or under absorption	In the costing there may be over or under absorption of fixed manufacturing	In the costing there won't be over under absorption of fixed manufacturing

The following table illustrates the fundamental distinctions between absorption and variable costing:

Characteristic	Absorption Costing	Variable Costing
Treatment of fixed production overhead costs	Allocated to units produced and carried over into inventory	Expensed in the period in which incurred
Use	External financial reporting under GAAP	Internal decision-making
Focus	Full cost of producing a product	Relationship between sales volume and profit

There is no one "best" method of accounting for product costs. The best method for a particular company will depend on its specific needs and objectives. For example, companies that are required to report externally under GAAP will need to use absorption costing. However, companies may also use variable costing for internal decision-making purposes.

Explain three to improve accounting system in Swipes 50 Ltd:

Accounting system refers to the method used in an organization to organize and manage accounting information utilized in the decision-making process. In the organization setup, the accounting system can either is computerized or manual. It is used in checking and monitoring expenses, income, and other operations associated with an organization under consideration. The company's efficient and effective accounting system keeps on watching information that is believed to affect the company's finance either positively or negatively. It assists the company management in keeping its transaction to ensure that the company can monitor and explain how its funds are used throughout the production process.

In most cases, the accounting system is helpful and valuable in making reports used by the business during situations when there is a meeting concerning how processes should be improved in the production process. Through this information, the management determines critical areas where improvement is required and provides directives on the best strategies to be established. The following explains the accounting systems that are primarily used in the company;

Managerial accounting; generally, managerial accounting provides essential information used in making future operation control and planning. In most cases, it is used within an organization to obtain information concerning how the company

operates. Through managerial accounting, an organization gains an opportunity to make future objectives throughout the operations and uses the insights provided in making decisions helpful in expanding business operations. In managerial costing, both lean and cost accounting are involved (Hiromoto, 2019). Therefore, cost accounting gathers information concerning different costs associated with manufacturing the products. Afterward, the information is used in decision-making to investigate priority activity executed in the future to ensure the practical existence of the company. The company, at this point, can ensure that there are limited chances associated with the wastage of the resources used in the production process.

Inventory accounting, primarily, is essential since it helps the company plan and monitor different stock or product inventory levels. The efficient and effective inventory system helps eliminate time wastage and all associated costs in the production process. It focuses on calculating appropriate and correct units available in the warehouse of a store in the company. The most commonly used inventory accounting comprises barcode tracking and RIFD, which helps monitor inventory levels in the manufacturing company.

Industry-specific accounting; this type of accounting system is usually developed by an organization based on business operations undertaken by the company. How the company uses its accounting systems determines its success in distributing products and services. For instance, some companies have different processes through which they utilize accounting systems.

Based on the information in Swipe 50 ltd, the accounting system can be improved or upgraded by efficiently and effectively planning the business operations. Each department participating in the manufacturing process must have clear guidelines on what should be done within a specified duration, ensuring limited chances of time wastage. The flowing explains how the accounting system can be improved in Swipe 50 ltd.

Ensuring that all data and information have been recorded in the computerized accounting system; effective automated systems are essential since they record data related to organization operations. Therefore, it can be utilized in the decision-making process, affecting all functions established in the production process. The computerized system will help the company organize and track accounting information in the best way. Based on this, the swipe 50 company should frame the accounting based on their requirements to ensure that it can be

used in recording all information obtained from the production process (Otley, & Berry, 2019). Although the computerized accounting system helps ensure accuracy in the calculation, the accountants involved in the specific analysis must investigate the best software to be used. Through this company will be in a position to avoid omission and error which occurs during transactions. Since the information obtained is free from any error, it can be used in decision- making, affecting the company's overall progress.

Cloud accounting is fundamental since it will help encourage innovation in the company. Through the implementation of cloud computing, the swipe 50 company stands an opportunity to ensure limited chances for time wastage and that the operations carried out in the business are more effective (Putra, 2019). Cloud computing will ensure that all information concerning the swipe50 company is secured from external attacks, hence the chances of hackers manipulating available information. Based on this, the information obtained can be used in decision-making, creating an opportunity for further development. The swipe company will experience a great advantage since cloud accounting offers complete information backup, reducing the chances of information loss. Also, cloud computing does not require extra maintenance, ensuring the production cost is meager.

Review all accounting systems; when the company fails to monitor its accounting systems, they are expected to become inefficient. Therefore, swipe 50 company must review all its accounting systems to determine if errors occur during a transaction. Regularly checking the accounting systems, and swipe 50 companies will ensure efficiency since information and data are collected effectively (Lowe, 2019). The information from the accounting system afterward is used in the decision-making process to define critical strategies suggested for effective operation. Combining all these strategies will ensure that swipe 50 limited can analyze its data and hence realize wares where improvement is required, leading to further development.

Managing accounting jobs can help a manufacturing company improve its performance:

- Managerial accountants can help a manufacturing company to reduce costs by identifying areas where waste can be eliminated and by developing and implementing more efficient processes.
- Managerial accountants can help a manufacturing company to increase revenue by developing pricing strategies that maximize profits and by identifying new market opportunities.

-Managerial accountants can help a manufacturing company to make better decisions by providing managers with the financial information and analysis they need. For example, managerial accountants can help managers to decide which products to launch, which markets to enter, and how to allocate resources.

- Managerial accountants can help a manufacturing company to target audience.

Product or service design is successful when it fulfills the needs of the end user or customer. A company that knows its target audience well will be able to align both its products as well as its advertising campaigns to better suit them. Many organizations do not take advantage of the valuable information that they have about their existing customers. A company that analyzes their customer data will be able to understand their demographic.

- Managerial accountants can help a manufacturing company to ensure compliance with all applicable financial regulations, such as tax laws and accounting standards.

- Managerial accountants can help a manufacturing company to provide transparency to its stakeholders by preparing financial statements and other reports that accurately reflect the company's financial performance.

- Managerial accountants can help a manufacturing company to relevant costs analysis How a company spends its money directly impacts the bottom line. To improve profit margins, a company will have to perform a cost analysis to analyze expenses and better plan future expenses. Since expenses are likely to be spread out, expense analysis involves comparing different suppliers, products, services and other factors to determine the one that would be most advantageous and profitable.

Conclusion

In this assignment, I created a profit statement for Swipe50 company using the two methods variable costing and absorption costing. Based on the previous discussions, both absorption costing and variable costing have their own advantages and disadvantages. Absorption costing is the required method for external financial reporting under generally accepted accounting principles (GAAP), while variable costing is a management accounting method that is used to make internal decisions. The best method for a particular business will depend on its specific needs and objectives. Businesses that need to report their financial performance to external stakeholders, such as shareholders and creditors, should use absorption costing. Businesses that are trying to make internal decisions about pricing, production, and marketing may want to consider using variable costing. Basically the techniques of managerial accounting are applicable in an organization to help in devising planning, supporting decisions of management, and performance management system and provide management assistant to formulate and interpret the organizational strategies in order to generate profitability. It helps ensure organizational success. The managerial accounting techniques used in different areas support management decisions and enhance the chances for a high rate of return in the future.

Applied research in management accounting explores how it is used in the organizational environment. The research includes a review of available sources on management accounting and an analysis of the main concepts. The research is then carried out in an actual organization to understand how management accounting is applied in reality. Data is collected through interviews and analysis of internal financial reports. Data are analyzed and interpreted using management accounting tools and techniques. The results show that management accounting plays a crucial role in improving the decision-making process and achieving the operational and strategic goals of the organization. The importance of integrating management accounting with other processes in the organization is emphasized to ensure successful strategic direction and achieve its goals

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