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PROFIT STATEMENT FOR SWIPE 50 LIMITED FOR THE MONTH OF FEBRUARY AND MARCH

ABSORPTION COSTING

Garrison, Noreen, and Brewer (2018) are of the view that under absorption costing, all manufacturing costs, both fixed and variable, are allocated to the products being manufactured. Therefore, the cost of a unit of product includes not only its direct materials, direct labor, and variable manufacturing overhead but also a share of the fixed manufacturing overhead. The following is the profit statement for Swipe 50 Limited for the month of February and March, using absorption costing:

February March Sales (11,500 x €22) € 253,000 € 341,000 Cost of goods sold: Direct materials € 29,000 € 33,250 Direct labor € 19,000 € 22,000 Variable manufacturing overhead € 7,300 € 8,500 Fixed manufacturing overhead (28,600/20,000 x 12,500; 28,600/20,000 x 14,500) € 17,150 € 19,005 Total cost of goods sold € 72,450 € 82,755 Gross margin € 180,550 € 258,245 Selling and administrative expenses € 44,500 € 57,100 Net income € 136,050 € 201,145

February	March	
Sales	€253,000	€341,000
Cost of goods sold		
Direct materials	€29,000	€33,250
Direct labor	€19,000	€22,000
Variable manufacturing	€7,300	€8,500
Fixed manufacturing	€17,150	€19,005
Total cost of goods sold	€72,450	€82,755
Gross margin	€180,550	€258,245
Selling and admin. costs	€44,500	€57,100

February	March	
Net income	€136,050	€201,145

VARIABLE COSTING

Horngren, Datar, and Rajan (2015) are of the view that, with variable costing, only the variable manufacturing costs are assigned to the products being manufactured. Fixed manufacturing overhead is treated as a period cost and is expensed in the period it is incurred. The following is the profit statement for Swipe 50 Limited for the month of February and March, using variable costing:

February March Sales (11,500 x €22) € 253,000 € 341,000 Variable cost of goods sold: Direct materials € 29,000 € 33,250 Direct labor € 19,000 € 22,000 Variable manufacturing overhead € 7,300 € 8,500 Total variable cost of goods sold € 55,300 € 63,750 Contribution margin € 197,700 € 277,250 Fixed manufacturing overhead € 28,600 € 28,600 Selling and administrative expenses € 44,500 € 57,100 Net income € 124,600 € 191,550

February	March	
Sales	€253,000	€341,000
Variable cost of goods sold		
Direct materials	€29,000	€33,250
Direct labor	€19,000	€22,000
Variable manufacturing overhead	€7,300	€8,500
Total variable cost of goods sold	€55,300	€63,750
Contribution margin	€197,700	€277,250

February	March	
Fixed manufacturing overhead	€28,600	€28,600
Selling and administrative expenses	€44,500	€57,100
Net income	€124,600	€191,550

THE DIFFERENCE BETWEEN ABSORPTION AND VARIABLE COSTING

Reconciliation of Absorption Costing and Variable Costing

The difference between the net incomes calculated using absorption costing and variable costing can be explained by the difference in the treatment of fixed manufacturing overhead. According to Horngren et al. (2011) using absorption costing, fixed manufacturing overhead is allocated to the products and becomes a part of the cost of goods sold. Under variable costing, fixed manufacturing overhead is treated as a period cost and is expensed in the period it is incurred. Therefore, the net income calculated using absorption costing will be higher than the net income calculated using variable costing when the number of units produced exceeds the number of units sold, as is the case in February. Conversely, the net income calculated using variable costing will be higher than the net income calculated using absorption costing when the number of units produced is less than the number of units sold, as is the case in March.

Explanation of the Difference between Absorption Costing and Variable Costing

Kaplan and Atkinson (2015) argue that absorption costing and variable costing differ in the way they treat fixed manufacturing overhead. Absorption costing includes fixed manufacturing overhead in the cost of goods sold, while variable costing treats fixed manufacturing overhead as a period cost. This difference in treatment can result in different net income figures, depending on the level of production and sales. In periods of low sales or high production, absorption costing can result in a higher net income than variable costing.

Horngren et al. (2011) postulate that absorption costing includes all manufacturing costs, such as direct materials, direct labor, variable and fixed production overheads, in the product cost. On the other hand, variable costing only includes the variable manufacturing costs, such as

direct materials, direct labor, and variable production overheads, in the product cost. They go on to express that, fixed production overheads are treated as period costs and expensed immediately. Therefore, under variable costing, the fixed production overheads are not included in the product cost.

The authors put across the notion that, for financial reporting and profitability analysis, absorption costing is more appropriate due to GAAP compliance and accurate inventory valuation. However, for internal management and strategic decision-making purposes, variable costing is more suitable due to its ability to isolate fixed and variable costs and the behaviour of costs. Companies may use both methods to obtain a comprehensive understanding of their product costs and profitability.

REPORT FOR 50 SWIPE LIMITED

Introduction

This report aims to analyze the income and costs arising from Swipe 50 Limited's activities by using the absorption and variable costing methods. Additionally, the report will provide suggestions on how Swipe 50 Limited can improve its accounting systems and explain the importance of managerial accounting in a manufacturing company.

Income and Cost Analysis using Absorption and Variable Costing

To apply absorption and variable costing to Swipe 50 Limited, we first need to calculate the cost per unit for each method. The calculations are as follows:

Absorption Costing:

Direct Materials + Direct Labor + Variable Overhead + Fixed Overhead/Number of Units Produced

February: $€29,000 + €19,000 + €7,300 + (€28,600/12,500) = €7.76$ per unit

March: $€33,250 + €22,000 + €8,500 + (€28,600/14,500) = €8.19$ per unit

Variable Costing:

Direct Materials + Direct Labor + Variable Overhead/Number of Units Produced

February: $€29,000 + €19,000 + €7,300 = €5.28$ per unit

March: $€33,250 + €22,000 + €8,500 = €5.91$ per unit

PROFIT RECONCILIATION

Using the above cost per unit calculations, we can now calculate the gross profit using absorption and variable costing for Swipe 50 Limited. The calculations are as follows:

February:

Sales (11,500 units x €22) = €253,000

Absorption Costing:

Revenue - Cost of Goods Sold = €253,000 - (11,500 units x €7.76 per unit) = €149,900

Variable Costing:

Revenue - Cost of Goods Sold = €253,000 - (11,500 units x €5.28 per unit) = €194,400

March:

Sales (15,500 units x €22) = €341,000

Absorption Costing:

Revenue - Cost of Goods Sold = €341,000 - (14,500 units x €8.19 per unit) = €223,050

Variable Costing:

Revenue - Cost of Goods Sold = €341,000 - (15,500 units x €5.91 per unit) = €247,450

As shown in the above calculations, the gross profit using variable costing is higher than that of absorption costing in both February and March. The difference in the gross profit arises due to the different treatment of fixed production overheads under each method as expressed by motion put forward by Horngren, Datar, and Rajan (2015). Absorption costing includes fixed production overheads in the product cost, which reduces the gross profit. However, under variable costing, fixed production overheads are treated as period costs, which do not affect the product cost and, therefore, increases the gross profit.

THE IMPORTANCE OF ABSORPTION AND VARIABLE COSTING

According to Kieso, Weygandt, and Warfield (2016), both methods have their unique advantages and limitations, and the choice of method depends on the purpose of the analysis. The absorption and variable costing methods are essential in product costing. According to the authors, absorption costing method provides a more accurate product cost as it includes all manufacturing costs, both variable and fixed. It also complies with the generally accepted accounting principles (GAAP) for financial reporting purposes. On the other hand, variable costing provides more relevant information for managerial decision-making as it separates fixed and variable costs. The variable costing method provides a relevant cost analysis for managerial decision-making. According to Garrison, Noreen, and Brewer (2018), variable costing describes the behaviour of costs more accurately, especially in the short-term. The authors argue that variable costing helps management understand how costs behave and how changes in production volume impact profitability. The authors state that variable costing is more appropriate for internal management purposes and may not comply with GAAP for external reporting.

WAYS 50 LTD CAN IMPROVE ITS ACCOUNTING SYSTEMS:

Implement activity-based costing (ABC) system:

ABC is a costing method that identifies and assigns costs to specific activities or processes in a company (Beneish & Press, 2017). Swipes 50 Ltd. can use this method to identify the costs of each activity involved in the production and sale of Plus Swipes. This will provide a more accurate understanding of the costs associated with producing each unit, and help the company make informed decisions regarding pricing, production, and resource allocation.

Use a cost-volume-profit (CVP) analysis:

(Drury, 2013) purports that, CVP analysis is a tool that helps companies understand the relationship between their costs, volume of production, and profits. Swipes 50 Ltd. can use this analysis to identify the breakeven point for their Plus Swipes product, and how many units they need to sell to make a profit. This will aid the company make informed decisions about pricing, production, and sales strategies.

Implement a budgeting system:

A budgeting system helps companies plan and control their finances (Gross & Datar, 2017). Swipes 50 Ltd. can use a budgeting system to create a financial plan for their Plus Swipes product, including projected sales, costs, and profits. This will help the company monitor their financial performance, identify areas for improvement, and make informed decisions about resource allocation.

Automate processes:

Automating accounting processes such as invoicing, accounts payable, accounts receivable, and payroll can save time, reduce errors, and improve accuracy. This can set Swipes 50 Ltd. up for sustainable growth by maximizing efficiency in the accounting department (Krishnan & Ramakrishnan, 2014).

Adopt cloud-based accounting software:

Cloud-based accounting software provides real-time access to financial information and allows multiple users to collaborate on the same data. According to, (Lohmann et al., 2017) this can enhance transparency, efficiency, and accessibility of information, enabling swift and informed decision-making for the company.

Implement internal controls:

Internal controls are policies and procedures designed to prevent fraud and errors. In the view of (Wolk et al., 2017), implementing strong internal controls can help ensure accurate financial reporting.

Regularly reconcile accounts:

Reconciling accounts, such as bank statements and credit card statements, on a regular basis helps to identify errors and discrepancies. According to (Ahmed & Ntim, 2017), this goes a long way in detecting and correcting mistakes in a timely manner.

Hire qualified accounting staff:

Hiring qualified accounting staff with the necessary skills and experience can improve the accuracy and efficiency of the accounting system. Competent accounting staff ensures that there are no mistakes in the financial statements produced, making the company's financial statements more reliable (Burns et al., 2013).

Provide training and development:

Regular training and development can help accounting staff stay up-to-date on changes in accounting regulations and best practices.

Conduct regular audits:

Conducting regular audits can help identify weaknesses in the accounting system and ensure compliance with accounting regulations and company policies. (Mihret & Yismaw, 2015) support this notion by putting across ideas that, auditing the accounting system can also help to identify fraudulent activities that may have occurred in the business

Overall, improving accounting systems requires a commitment to ongoing process improvement and a willingness to invest in technology, training, and staff development.

THE IMPORTANCE OF MANAGERIAL ACCOUNTING JOBS IN A MANUFACTURING COMPANY:

Managerial accounting plays a crucial role in the success of a manufacturing company. It involves collecting, analyzing, and interpreting financial data that helps managers make informed decisions related to the company's operations, production, and overall performance. Some of the important roles that managerial accounting plays in a manufacturing company include:

Cost management:

Managerial accountants in a manufacturing company are responsible for managing and controlling the costs associated with production. According to, Anthony, R. N., & Govindarajan, V. (2019) they help the company make informed decisions regarding pricing, production, and resource allocation, by providing accurate cost information. Managerial

accounting provides information on the costs involved in the production process, including direct materials, direct labor, and overhead costs. This helps managers identify areas where costs can be reduced, which in turn can increase profitability.

Performance measurement:

In the motion perpetrated by Jiambalvo, J. (2018), managerial accountants in a manufacturing company help measure the performance of the company by creating and analyzing financial reports. They use these reports to identify areas for improvement and to make informed decisions regarding resource allocation. Managerial accounting helps managers evaluate the performance of the manufacturing company by providing accurate and relevant data on key performance indicators. This information helps managers make strategic decisions that can improve the company's performance and profitability.

Planning and decision making:

Managerial accountants in a manufacturing company aid the company plan and make informed decisions regarding resource allocation, production, and pricing. In the view of Kaplan, R. S., & Norton, D. P. (2018), they provide accurate cost information and financial reports that help the company identify areas for improvement and make informed decisions regarding resource allocation.

Budgeting and forecasting:

Malmi, T., & Brown, D. A. (2019) says, managerial accounting provides the tools and techniques necessary for budgeting and forecasting, which is essential in determining the financial goals of the company. This helps managers set realistic targets and make informed decisions about resource allocation.

Decision-making:

According to Malmi, T., & Brown, D. A. (2019), managerial accounting provides information on the financial implications of different decisions that managers may make. This information helps managers make informed decisions that are in the best interest of the company.

Product pricing:

Managerial accounting provides information on the costs involved in producing different products, this is in accordance to Beneish, M. D., & Press, E. G. (2017). This information helps managers set prices that are competitive and profitable.

In summary, the role of managerial accounting in a manufacturing company is critical as it helps managers make informed decisions that can improve the company's performance and profitability.

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