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MGT510: MANAGERIAL ACCOUNTING
MODULE ASSIGNMENT: MANAGERIAL ACCOUNTING REPORT

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Introduction

The term "cost" refers to the sum of money or other resources that are spent on something throughout the course of a purchase, commercial transaction, or other activity. Depending on the specifics of the production and the end result, many sectors of the economy use a variety of distinct approaches to calculate the costs of the goods and services they offer.

THE FOLLOWING ARE TERMS THAT ARE RELATED TO COSTING:

Costs that are considered to be fixed are those that do not change in proportion to variations in output and would continue to be incurred even if there was no output created. Such things as the rent, the interest payments, the property taxes, and the salaries of the employees. On the other hand, fixed costs are only applicable to a particular time frame because, in the long run, fixed costs are subject to change. For instance, a factory might choose to raise their production capacity in response to an increase in the demand for their product, which would necessitate a higher level of investment in their plant and equipment.

Costs That Are Variable Costs that are variable change in direct proportion to the quantity of goods or services that are produced. The price of the raw materials is the most important variable cost for manufacturers.

The term "total cost" refers to the aggregate of "fixed," "variable," and "semi-variable" expenditures.

There are two types of costs: direct costs and indirect costs. Direct costs typically comprise the primary components used in manufacturing things and the labor that is directly required to make those goods. Indirect costs do not include significant components used in producing goods. The term "direct costs" is synonymous with the term "primary costs." On the other hand, indirect costs consist of plant-wide expenditures like those that are incurred due to the use of energy and fixed capital. The term "overhead" can also be used to refer to indirect costs.

Profit statement for Swipe50

Absorption costing

profit statement - using Abc costing			
<u>February</u>			
sales 11500 @22		253000	
less COGS			
beg inventory	0		
Add COG manufactured - 12500 unit	83900		
COG Available for sale	83900		
less closing inventory 1000*6.712	6712	77188	(83900/125000)*1000
Gross profit		175812	
less selling Adm			
fixed selling	8275		
variable selling	36225	44500	(57100-44500/4000)*11500
net profit for Feb		131312	
profit statement - using Abc costing			
<u>March</u>			
sales 15500 @22		341000	
less COGS			
beg inventory	6712		
Add COG manufactured - 15500 unit	92350		
COG Available for sale	99062		
less closing inventory 1000*6.712	0	99062	
Gross profit		241938	
less selling Adm			
fixed selling	8275		
variable selling	48825	57100	
net profit for Feb		184838	

Variable costing

profit statement - using variable costing		
		<u>February</u>
sales 11500 @22		253000
less COGS		
beg inventory	0	
Add COG manufactured - 12500 unit	55300	
COG Available for sale	55300	
less closing inventory 1000*4.424	4424	50876
variable manufacturing margin		202124
less variable selling		36225
CM		165899
less fixed exp		
fixed selling	8275	
variable selling	28600	36875
net profit for Feb		129024

profit statement - using variable costing		
		<u>March</u>
sales 15500 @22		341000
less COGS		
beg inventory	4424	
Add COG manufactured - 15500 unit	63750	
COG Available for sale	68174	
less closing inventory	0	68174
variable manufacturing margin		272826
less variable selling		48825
CM		224001
less fixed exp		
fixed selling	8275	
variable selling	28600	36875
net profit for Feb		187126

Differs & importance of the each methods.

Activity-based costing

When determining the price of a product, activity-based pricing takes into account all costs associated with that product, including indirect costs. It is a method for determining the value of the final product as well as maintaining tabs on how much of the available resources are utilized. By implementing activity-based pricing, it is your intention to assign particular resources to particular objects, is that correct? When it comes to pricing and manufacturing strategy, it enables team leaders to make more informed decisions by more clearly identifying the activities that contribute to increased production costs.

Using activity-based costing, it is possible to make more precise projections of production costs (ABC). It is possible that businesses will be able to make more informed decisions about which products to manufacture or which manufacturing processes to apply if they employ this method. When utilizing this method, it is possible to more precisely price individual products.

Activity-based costing has a number of advantages, one of which is that it streamlines the process of data collection, which ultimately results in a more accurate estimation of production expenses. Once they have access to all of the necessary information, the majority of the members of management are able to calculate the costs associated with each action. The ability to make judgments on production that have an effect on pricing may also benefit from this. (Nouri, 2020)

By utilizing activity-based costing to take into account indirect or non-manufacturing expenses that were not previously taken into consideration, it is possible to obtain increased profit margins. When it comes to making important decisions, the management of a firm could benefit from having more accurate information regarding profit margins. As a consequence of this, management has the ability to improve their profit margins even further by employing efficient pricing tactics in the hopes of lowering or shifting manufacturing costs in order to do so.

Activity-based pricing enables managers to quickly discover products that are of little or no value by allowing them to compare prices for similar activities. They have made the decision to remove products from inventory and shift manufacturing resources to those that will generate a greater profit based on the information that this data has provided them. In addition, it makes it much easier to recognize things whose operations result in the waste of energy or other resources. It is possible that certain items are not just not very valuable, but that they also make use of resources that might otherwise be accessible.

Disadvantages of using activity-based costing

When selecting which method is the most appropriate for a specific circumstance, it is important to take into account the shortcomings of the activity-based costing approach. The following is a list of some of the drawbacks that should be kept in mind:

It is possible that under different conditions it will take up more time.

More time is saved by using traditional costing approaches rather than activity-based costing. Instead of making estimates of total costs and distributing them evenly across all products, workers are tasked with manually evaluating the costs associated with each individual item in the inventory. In order for them to accomplish this, the use of categories and divisions is required.

In order for an organization to do this task, it can either assemble a team of its own employees or hire a third party to do it on their behalf. In most cases, the execution of this plan cannot be successful without the participation of a team of management-level employees. Because they are already familiar with the programs, an activity-based costing team typically has a greater ability to complete this work in a more timely and effective manner.

There is a possibility that more funds will be required for data collection.

The process of gathering information about a product could require a significant amount of time and money. The completion of the work may necessitate the hiring or assignment of team members for enterprises, which will have an effect on salary, in addition to the purchase of data collection technologies. In addition, it is feasible for a company to outsource the process, but this option is likely to be more expensive. However, it is feasible that there are ways to simplify the process, so making it more efficient and cost-effective.

It is possible that this will be difficult if there is no data that is easily accessible.

Because of the production processes or software programs that you employ, the information that you require might not always be easily accessible when you need it. It's possible that in order to acquire the information you seek, you'll need to make use of some specialized software. If the reports you're using to track progress don't adhere to standard accounting procedures, you may have a tough time keeping track of how particular teams are doing.

It is highly likely that the entire production and manufacturing crew will require training in order to make use of the new activity-based costing technique and software. However, once they have done so, the procedure has a tendency to become simpler for all parties involved. If you have access to the appropriate resources and people of your team, you may be able to profit from the process of gathering knowledge.

There is a possibility that companies operating on a tighter budget won't be able to use it.

It's possible that a smaller company will find that adopting activity-based costing is less effective than using other ways of costing in their business. They are more likely to use pricing principles that are based on the market when calculating data as opposed to activity-based pricing principles. The manufacturing industry is the one that utilizes activity-based costing the most frequently. This manufacturing method is also benefiting a number of other industries to a significant extent.

Variable costing

It is possible to ascertain the total cost of a product by employing a costing strategy known as "variable costing" or "direct costing," which is based solely on the variable production expenditures (direct materials, direct labour, and variable manufacturing overhead). It is also sometimes referred to as "direct costing." Depending on the circumstances, direct costing is another name for variable costing, which can also be used interchangeably.

When employing variable costing as a production method, all production costs that are not directly tied to output are disregarded and are not taken into consideration. Under the terms of this arrangement, the price of the product does not take into account the fixed production overhead costs.

The costs associated with marketing, in contrast to the costs associated with selling and administration, are regarded as ongoing expenses that are subtracted from income as they are spent.

Manufacturing costs will look like this if you employ variable costing:

$$\text{Direct Materials} + \text{Direct Labor} + \text{Direct Expense} + \text{Variable Factory Overhead} = \text{Total Cost of Production (in dollars).}$$

As a direct result of applying the variable costing technique, the only manufacturing costs that are taken into consideration for product pricing are those that vary directly with output. This category encompasses all of the overhead expenses associated with manufacturing that aren't set in stone, including raw materials, direct labor, and variable expenditures.

The following are some of the characteristics of variable pricing:

In variable costing, the fundamental factor that goes into establishing the price of a product is the variable costs associated with its production.

In the context of this discussion, expenses for fixed factory overhead are treated as period costs and are subtracted from revenue in the same period in which they are incurred.

When compared to absorption costing, which includes fixed factory overhead in the cost of production, the cost of inventory is lower when utilizing fixed factory overhead. This is because absorption costing includes fixed factory overhead in the cost of production.

When variable costing is utilized, the company's operational income is more closely tied to the level of sales as opposed to the level of output.

When calculating net income, the Contribution Approach is what is utilized. The C/M ratio is determined by deducting the variable cost of products sold from sales, and the net income is found by deducting the C/M ratio from all fixed expenses.

When using variable costing, there is no need to make changes for the under or over allocation of fixed factory overhead in the production cost. This is because variable costing accounts for these factors automatically.

Variable costing has a number of advantages.

The use of all pricing has a number of benefits.

When complete costing is done, the resulting manufacturing costs are more accurate. All of the company's overhead expenses are taken into consideration.

There is a greater quantity of inventory. Because it accounts for fixed costs as part of the production cost calculation, the cost is associated with the product even if it has not yet been purchased by a customer. As a direct consequence of this, inventory levels have risen. Utilize software for managing inventory that is set to run automatically in order to keep track of the availability of your products.

The growth was seen in both the operating profit and the net income. Due to the fact that it is connected to a product, the company will not include fixed overhead costs in the cost of goods sold until the product in question has been sold. The overhead costs are going to be connected to the inventory even if it hasn't been sold yet, so be prepared for that. This results in a larger operational profit figure when compared to variable costs, which may be found here. Variable costing, on the other hand, requires the business to account for

overhead expenses as part of its operational expenses even though the associated goods or services have not yet been sold.

Management supervision and control

- • When it comes to management control, reports that are based on variable costing are more useful than ones that are based on absorption costing. The reason for this is because reporting on variable costs are tied to profit goals and may be used to determine who is accountable for what inside an organization regardless of its size or structure.
- • Reducing expenses is an absolute necessity.
- • It is simpler to manage costs with the elimination of fixed expenses, which paves the way for increased productivity.
- • The ways in which one can create money have evolved.
- • As a result of changes in sales, there is a corresponding shift in the net profit derived from variable costs. Therefore, the computation of additional profit resulting from higher sales is made to be a great deal simpler..

Variable costing has a number of disadvantages and limitations.

In spite of the numerous advantages they present, variable costs are associated with a number of drawbacks. The following is a list of some of the limitations and disadvantages associated with using it:

Price miscalculation: costs associated with the production that are constant and can be specified and quantified. On the other hand, every single expense that is fixed is regarded to be a period cost. As a consequence of this, it is quite likely that the costs of production will be incorrect. nn

On the whole, the following pertains to product pricing: Variable costing is pointless for long-term pricing strategy since it does not take into account the fixed production overhead as a part of the product cost.

Inventory has lost value for a variety of different reasons. According to the authors of the study, variable-costing approaches devalue both finished commodities and work-in-progress inventory. The reason for this is that the price of the product does not reflect the fixed expenses that are associated with operating the facility. Because of this, the balance sheet does not provide an accurate representation of the organization's current financial status.

When it came to reporting both internally and externally, as well as filing taxes, variable costing was historically frowned upon. In point of fact, this is not the case at all any longer at all. This guideline only applies to those individuals who are in charge of running the internal operations. This does not comply with the generally accepted accounting principles.

It can be difficult to sort through expenses in order to determine which ones are consistent and which ones are subject to change, especially if those costs are only partially variable.

There aren't any long-term costs.

Difference between Absorption Costing and Variable Costing

- A. In absorption pricing, all costs associated with production are factored into the final product price. On the other hand, variable costing will only factor in direct costs when determining the price of the product.
- B. The results of absorption costing indicate that the cost of the product is greater than the cost estimated using variable costing, but the results of variable costing indicate that the cost of the product is less than the result of absorption costing.
- C. When using absorption costing, the value of closing stock on the income statement and balance sheet is higher, however when using variable costing, the value of closing stock is lower. This is the case in the case of variable costing.
- D. In the absorption method of costing, the fixed manufacturing overhead is treated as a unit cost and subtracted from the selling price. On the other hand, in the variable method of costing, the fixed manufacturing overhead is treated as a periodic cost and subtracted from the periodic gross profit.
- E. The net profit will be determined using the absorption costing method, whereas the contribution will be determined using the variable costing method.
- F. The majority of the time, variable costing is utilized for internal reporting, whereas absorption costing is utilized mostly for external reporting and the computing of taxable income.
- G. Under the absorption method of costing, fixed manufacturing expenses are counted as part of the product cost, whereas under the variable method of costing, fixed manufacturing expenses are counted as part of the period cost.

Improve its accounting systems.

The first thing that has to be done is to figure out what the requirements of the clients are. A manager can achieve this goal by selecting one of several approaches to locating and resolving quality concerns in the organization's products or services. The manager will evaluate all of the options and choose the approach that is most suitable for the situation. In a scenario such as this one, the utilization of statistical approaches may prove to be beneficial. The line between random variation and nonrandom variation is intended to be blurred as a result of the implementation of statistical quality control procedures. When it comes time to make decisions, the manager is going to use a control chart along with some observations. In order to guarantee the product's quality, it is necessary to investigate the product's design. (Al-Hajj Ahmed, 2020)

The management may also find it helpful to make decisions with the assistance of a pareto diagram, which illustrates the frequency of each different kind of failure. In addition, the cause and effect diagrams make an effort to link each result to one or more possible causes by drawing a line between the two.

In order to increase the quality of the product as a whole, one further strategy would be to make use of a fishbone diagram to isolate the various factors that contribute to its low standard.

(Abdul Rahman, 2020)

Accounting jobs are important in manufacturing company

1. Expenses that are directly associated with the project

Management accountants are tasked with the responsibility of conducting in-depth cost assessments that are pertinent to the current situation. The goal of these analyses is to evaluate existing costs and provide suggestions for future operations. This invites the question, "How should I manage the resources I have available to me financially?"

To begin, the company needs to do a thorough examination of all of its options and determine the strategy that will result in the greatest increase in revenue. Management accountants are tasked with analyzing a broad spectrum of products, services, and marketing endeavors in order to identify the most viable business model.

After the accounting department has finished the essential cost analysis, your future business decisions will be based on more factual information. This will allow you to make better decisions.

2. Addressing Particular Groups of People

It is necessary for a marketer to concentrate on the requirements and preferences of the target audience. It is vital for every company to construct a buyer persona that details all of the essential parts of their operation. These aspects may include, but are not limited to the following:

Even if an accurate picture of the typical customer has been painted, there is still more work to be done.

According to the accounting experts at accounting assistance online, management accountants should determine the worth of each client group in order to identify the most lucrative units. This evaluation should take place in order to determine the most profitable units. Because this kind of audience targeting is so specific, it enables you to concentrate more of your efforts and resources on those markets that have the potential to provide you with greater long-term value. (Bouhroud, 2020)

3. Participate in or make purchases of evaluations

Before deciding on a plan for product development that is both cost-effective and efficient, you need first determine which option is suitable for the requirements of your organization. The common practice is to either produce one's own goods or to purchase them from a third party, depending on the commodity in question. In this scenario, it would be best for you to take the recommendations of the management accountants at your organization.

These individuals are in a better position to evaluate the true costs associated with each alternative and determine whether or not they would realize greater financial savings by producing their own goods or by obtaining them from a manufacturer. Despite the fact that it appears to be a straightforward decision, it is really important and might either make or break your business.

4. Create a financial plan.

The process of creating a budget is approached with great caution, and there is no room for error. When putting together your budget, make sure to take into account the results of your previous marketing and sales efforts. In this circumstance, the tasks of management accountants include conducting research on the history and making preparations for the future. Estimates of the financial burden associated with any endeavor, be it a department, a project, a marketing campaign, a new product, or anything else, are required to be compiled.

CONCLUSION:

The use of a computerized accounting system makes it possible for a greater number of companies to more readily exchange financial information with one another. For instance, if one company that uses manual accounting procedures acquires another organization that also uses manual accounting methods, the process of completely integrating the financial data of the two companies may take many weeks or even months. If, on the other hand, both businesses utilize computerized accounting systems that are compatible with one another, it will be simple to combine all of the data into a single system because one program will be able to communicate with the other. (Rostam, 2020)

Many laborious and time-consuming manual accounting operations are rendered obsolete by the use of a computerized accounting system. In addition to automating computations, many accounting software programs enable users to easily generate a variety of reports, such as year-end and statistical summaries, with the click of a button. Now, a document that would have taken a junior accountant hours to assemble in the past can be produced in a matter of seconds because to advances in technology. Sharing information more quickly is another advantage that comes with automating the accounting process. This is made possible by the increased efficiency of the process. Multiple authorized persons are able to independently enter information concerning business accounting into an automated system. In addition, accounting papers such as financial statements can be forwarded quickly and easily from one coworker to another. This saves a great deal of time.

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