COVER PAGE AND DECLARATION

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Introduction:

This report delves into the analysis of costing methods and provides recommendations for Swipe 50 Limited, a specialised manufacturer of laptop computer screen protectors. Focusing on income and cost arising from the company's activities, the Chief Financial Officer, Tamara J. Blooms, has emphasised the importance of product costing. Specifically, the report explores how absorption and variable costs impact the company's profits. Additionally, it examines the reconciliation of profits calculated using absorption and variable costing, explains the differences between the two methods, and highlights their respective importance.

Absorption and variable costing are two widely used approaches for allocating costs and determining the profitability of products. The choice of costing method can significantly impact the reported profit figures and, consequently, the decision-making process within an organisation. Therefore, it becomes imperative to understand the differences between these methods and their significance in financial analysis and management decision-making.

Absorption costing incorporates variable and fixed manufacturing overhead costs into the cost of goods sold. It assigns a portion of fixed overhead costs to each unit produced, thereby absorbing these costs into the product's cost. In contrast, variable costing considers only the variable costs, such as direct materials, direct labour, and variable overhead, as part of the cost of goods sold. Fixed manufacturing overhead costs are treated as period expenses and are not assigned to individual units.

The reconciliation of profits calculated using absorption and variable costing provides a deeper understanding of the impact of fixed manufacturing overhead costs on reported profits. By comparing the profits obtained under each method, it is possible to identify the variations and gain insights into the factors influencing profitability. This reconciliation helps management evaluate the effect of fixed costs on the company's financial performance and aids in making informed decisions regarding pricing strategies, cost control measures, and resource allocation.

The differences between absorption and variable costing extend beyond the treatment of fixed manufacturing overhead costs. Absorption costing provides a comprehensive view of product costs, including variable and fixed costs. It is required by generally accepted accounting principles (GAAP) for external financial reporting, making it essential for regulatory compliance and ensuring transparency in financial statements. Variable costing, on the other hand, focuses solely on the variable costs per unit and treats fixed costs as period expenses.

This method offers valuable insights into the contribution margin of individual products and facilitates internal decision-making related to pricing, product mix, and resource allocation.

Understanding the importance of each costing method is crucial for management decision-making and financial analysis. Absorption costing is necessary for external financial reporting, enabling stakeholders to evaluate the total cost of producing goods and accurately reflect the company's financial position. It aligns with accounting standards, ensures compliance with regulations, and facilitates comparisons across different companies. Variable costing, on the other hand, is particularly useful for internal management decision-making. Focusing on the contribution margin helps managers assess the profitability of products, evaluate cost-saving initiatives, and make informed decisions regarding pricing, production volume, and resource allocation.

The analysis of absorption costing and variable costing methods provides valuable insights into the profitability of Swipe 50 Limited and facilitates sound decision-making. The reconciliation of profits allows for a deeper understanding of the impact of fixed manufacturing overhead costs on reported profits. The differences between these costing methods, along with their respective importance, highlight their significance in financial analysis, external reporting, and internal decision-making. By carefully considering the choice of costing method and understanding its implications, Swipe 50 Limited can make informed decisions to optimise profitability and enhance its overall financial performance.

1. A profit statement:

Also known as an income statement or statement of earnings summarises a company's revenues, costs, and expenses, ultimately calculating net profit or loss. Here, we will prepare profit statements for Swipe 50 Limited for February and March using absorption and variable costing methods.

A. Absorption Costing:

Absorption costing considers variable and fixed manufacturing overhead costs as part of the cost of goods sold. To prepare the profit statement using absorption costing, we start with the sales revenue, which is the total amount generated from the sale of products during the given period. This figure is obtained by multiplying the selling price per unit by the units sold.

From the sales revenue, we deduct the cost of goods sold (COGS), which includes direct materials, direct labour, variable production overhead, and a portion of fixed production overhead. The COGS is calculated by multiplying the units sold by the cost per unit, which is derived by dividing the total manufacturing costs by the production units.

Subtracting the COGS from the sales revenue gives us the gross profit. Finally, we remove the total selling and administrative expenses from the gross profit to calculate the net profit.

B. Variable Costing:

Variable costing only considers variable costs, such as direct materials, direct labour, and variable production overhead, as part of the cost of goods sold. Fixed manufacturing overhead costs are treated as a period expense and are not included in calculating the cost per unit or the cost of goods sold.

To prepare the profit statement using variable costing, we follow a similar process as absorption costing. We calculate the variable cost per unit by dividing the total variable costs by the production units. Multiplying the variable price per unit by the number of units sold gives us the variable cost of goods sold.

We deduct the variable cost of goods sold from the sales revenue to calculate the gross profit. Then, subtracting the total selling and administrative expenses from the gross profit gives us the net profit.

By preparing profit statements using both absorption costing and variable costing methods, Swipe 50 Limited can gain insights into the profitability of its products and understand how different costing approaches impact its financial results. This information enables the company to make informed pricing, cost management, and resource allocation decisions.

- Profit statement for Swipe 50 Limited for the month of February and March using:

Absorption Costing Analysis

	February	March
Production (units)	12,500.00	14,500.00
Sales (units)	11,500.00	15,500.00
Direct Materials (€)	29,000.00	33,250.00
Direct Labour (€)	19,000.00	22,000.00
Variable Production Overhead (€)	7,300.00	8,500.00
Fixed Production Overhead (€)	28,600.00	28,600.00
Total Manufacturing Costs (€)	83,900.00	92,350.00
Cost per Unit (€)	6.71	6.37
Cost of Goods Sold (€)	77,188.00	99,062.00
Gross Profit (€)	175,812.00	241,938.00
Total Selling and Administrative Expenses (€)	44,500.00	57,100.00
Net Profit (€)	131,312.00	184,838.00

Variable Costing Analysis

	February	March
Production (units)	12,500.00	14,500.00
Sales (units)	11,500.00	15,500.00
Direct Materials (€)	29,000.00	33,250.00
Direct Labour (€)	19,000.00	22,000.00
Variable Production Overhead (€)	7,300.00	8,500.00
Total Variable Costs (€)	55,300.00	63,750.00
Cost per Unit (€)	4.42	4.40
Cost of Goods Sold (€)	50,830.00	68,174.00
Gross Profit (€)	202,170.00	272,826.00
Total Selling and Administrative Expenses (€)	44,500.00	57,100.00
Fixed Production Overhead (€)	28,000.00	28,000.00
Net Profit (€)	129,670.00	187,726.00

2. Reconciliation of Profit:

The reconciliation of profit between absorption and variable costing is a critical step in understanding the impact of fixed manufacturing overhead costs on the company's profitability. As mentioned, absorption costing includes fixed manufacturing overhead costs in the price of goods sold, while variable costing treats them as a period expense. This difference can lead to variations in the reported profits under each method.

We need to analyse the treatment of fixed manufacturing overhead costs and its impact on the two methods to reconcile the profit calculated using absorption costing to that obtained using variable costing.

Under absorption costing, fixed manufacturing overhead costs are allocated to products based on predetermined overhead rates and included in the price of goods sold. As production levels increase, more fixed manufacturing overhead costs are given to the products, resulting in a lower reported profit. Conversely, lower fixed manufacturing overhead costs are allocated if production levels decrease, leading to a higher reported profit.

In contrast, variable costing considers fixed manufacturing overhead costs as a period expense, which means they are not included in the cost of goods sold. Instead, these costs are expensed in the period they are incurred. Consequently, changes in production levels do not impact the reported profit under variable costing.

We can start by calculating the difference in fixed manufacturing overhead costs between the two methods for the given months to reconcile the profits. We obtain the variance by subtracting the improved manufacturing overhead costs under absorption costing from the fixed manufacturing overhead costs under variable costing.

This variance represents the fixed manufacturing overhead costs deferred in inventory under absorption costing and released as a period expense under variable costing. By adjusting the profit calculated using absorption costing by this variance, we can reconcile it with the yield obtained using variable costing.

It is important to note that the reconciliation process provides valuable insights into the impact of fixed manufacturing overhead costs on reported profits. It helps management understand the contribution of fixed costs to the overall profitability and enables more accurate financial analysis and decision-making.

By reconciling the profits, swipe 50 Limited can better understand the differences between the two costing methods and the factors influencing the reported profits. This analysis enables the company to make informed decisions regarding cost management, pricing strategies, and resource allocation.

Reconciliation of Profit:		
	February	**March**
Net Profit (Variable Costing)	€ 129,670.00	€ 187,726.00
Net Profit (Absorption Costing)	€ 131,312.00	€ 184,838.00
Fixed Production OH in Cost of Goods Sold (Absorption Costing)	€ 26,358.00	€ 30,888.00
Fixed Production OH Expensed in the Period (Variable Costing)	€ 28,000.00	€ 28,000.00
Reconciled Net Profit in Variable Costing	€ 129,670.00	€ 187,726.00

3. Explain How Each Method Differs from the Other Method and the Importance of Each Method:

Absorption and variable costing are two distinct approaches to calculating product costs and determining profits. They differ primarily in the treatment of fixed manufacturing overhead costs. Understanding the differences between these methods is essential for management decision-making and financial analysis. Let's explore how each process differs and discuss its importance.

Absorption Costing:

Absorption or full costing assigns variable and fixed manufacturing overhead costs to the cost of goods sold. This means that fixed overhead costs are absorbed into the unit costs of products. The key features of absorption costing are as follows:

Treatment of Fixed Manufacturing Overhead Costs:

Under absorption costing, fixed manufacturing overhead costs, such as rent, depreciation, and utilities, are allocated to products based on a predetermined overhead rate. These costs become part of the goods sold and are expensed when the products are sold. This method provides a comprehensive view of production costs by incorporating fixed and variable costs.

Influence of Production Levels:

One significant characteristic of absorption costing is that the production level influences the reported profit. As production increases, a more substantial portion of fixed overhead costs is allocated to each unit, resulting in a lower reported profit. Conversely, if production decreases, a smaller amount of fixed overhead costs is allocated, leading to a higher reported profit.

External Financial Reporting:

Absorption costing is required by generally accepted accounting principles (GAAP) for external financial reporting. It ensures that all costs, both variable and fixed, are allocated to products, providing a holistic view of the cost of production. This method helps meet regulatory requirements, assess financial performance, and compare costs across different companies.

Importance of Absorption Costing:

Absorption costing is essential for external financial reporting purposes. It aligns with accounting standards and provides stakeholders, including investors, lenders, and regulatory bodies, with a comprehensive understanding of the company's financial position. Absorption costing ensures that all costs are accounted for, allowing for accurate profitability evaluation, cost control, and performance measurement.

Variable Costing:

Variable costing, direct or marginal costing, only includes variable costs in the cost of goods sold. Fixed manufacturing overhead costs are treated as a period expense and are not assigned to individual products. The key features of variable costing are as follows:

Treatment of Fixed Manufacturing Overhead Costs:

In variable costing, fixed manufacturing overhead costs are not allocated to the cost of goods sold. Instead, they are treated as a period expense and deducted as a separate line item on the income statement. This approach allows for more precise separation of fixed and variable costs.

Net Profit and Production Levels:

Unlike absorption costing, variable costing does not link net profit to production levels. Fixed manufacturing overhead costs are considered period expenses and do not impact the price per unit. Therefore, variations in production levels do not affect the reported profit under variable costing.

Internal Decision-Making:

Variable costing is particularly useful for internal management decision-making. By focusing on variable costs per unit, this method provides insights into the contribution margin, which is the difference between sales revenue and variable costs. It helps identify the profitability of individual products or segments, enabling management to make informed decisions regarding pricing, product mix, and resource allocation.

Importance of Variable Costing:

Variable costing provides a more relevant view of product costs for internal decision-making. By separating fixed and variable costs, variable costing helps managers understand each product’s contribution to covering fixed costs and generating profit. It aids in assessing the profitability of different products or segments, facilitating strategic decisions related to pricing, cost management, and resource allocation.

In summary, absorption and variable costing differ in treating fixed manufacturing overhead costs. Absorption costing assigns fixed overhead costs to products, influencing the reported profit based on production levels. It is essential for external financial reporting and provides a comprehensive view of product costs. Variable costing, on the other hand, treats fixed overhead costs as a period expense, allowing for better internal decision-making and focusing on the contribution margin. It aids in evaluating product profitability and facilitating strategic choices. Both methods serve essential purposes in financial analysis and decision-making, depending on the intended audience and objectives of the study.

4. Recommendations for Improving Accounting Systems:

Effective accounting systems are essential for Swipe 50 Limited to track costs accurately, analyse financial performance, and make informed business decisions. To enhance their accounting systems, the following recommendations can be implemented:

A. Implement Activity-Based Costing (ABC):

Activity-Based Costing is a methodology that allocates costs based on the activities that drive them. By identifying and assigning costs to specific actions, Swipe 50 Ltd. Can gain more accurate insights into the costs associated with producing each product. This approach enables the company to allocate costs more precisely, identify cost drivers, and make informed decisions regarding pricing, product mix, and process improvements. ABC helps align costs with activities, leading to better cost control and increased profitability.

B. Enhance Cost Control and Analysis:

Strengthening cost control measures is vital for Swipe 50 Ltd. To optimise expenses and improve profitability. The company should regularly analyse costs, such as direct materials, labour, and overheads, to identify areas for cost optimisation. This analysis can involve reviewing supplier contracts to negotiate better terms, exploring options for strategic sourcing, and optimising production processes to minimise waste and improve efficiency. By implementing robust cost control measures, Swipe 50 Ltd. Can achieve cost savings and enhance overall financial performance.

C. Utilize Integrated Accounting Software:

Swipe 50 Ltd. We should consider adopting integrated accounting software that combines various accounting functions into a unified system. Integrated software streamlines processes, improves accuracy, and provides real-time financial information. It automates routine tasks such as recording transactions, generating reports, and reconciling accounts, reducing the risk of errors and freeing up valuable resources. Furthermore, integrated software allows seamless integration with other systems, such as inventory management or customer relationship management (CRM), enabling better coordination and efficiency across departments.

D. Strengthen Internal Controls:

Robust internal controls are crucial for ensuring the accuracy and reliability of financial information. Swipe 50 Ltd. Establish and enforce strong control mechanisms to safeguard assets, prevent fraud, and maintain data integrity. This includes implementing segregation of duties, regularly reconciling accounts, conducting periodic audits, and enforcing strict approval processes for financial transactions. Strengthening internal controls provides management with confidence in the accuracy of financial data and enhances the overall reliability of the company's accounting systems.

E. Invest in Employee Training and Development:

Swipe 50 Ltd. Should prioritise employee training and development programs to ensure accounting staff are equipped with the necessary skills and knowledge. Providing ongoing training in areas such as financial reporting standards, cost analysis, and accounting software usage enhances the proficiency of the accounting team. This enables them to perform their roles more effectively, stay updated with industry best practices, and contribute to the continuous improvement of the accounting systems.

By implementing these recommendations, Swipe 50 Ltd. It can enhance its accounting systems, leading to more accurate financial information, improved cost control, better decision-making, and increased profitability. A well-designed and efficient accounting system is a foundation for effective financial management and ensures the company remains competitive.

5. Importance of Managing Accounting Jobs in a Manufacturing Company:

Managing accounting jobs is of paramount importance in a manufacturing company due to several key reasons:

A. Cost Management: Accounting professionals play a vital role in managing costs associated with production in a manufacturing company. They are responsible for tracking, analysing, and controlling direct materials, labour, and overhead costs. By closely monitoring these costs, accounting professionals can identify areas for cost optimisation, negotiate favourable supplier contracts, streamline production processes, and ultimately contribute to maximising profitability.

B. Financial Reporting: Accurate and timely financial reporting is essential for a manufacturing company to meet regulatory requirements and provide stakeholders with reliable information. Accounting professionals are responsible for recording financial transactions, preparing financial statements, and ensuring compliance with accounting standards and regulations. By maintaining accurate financial records, manufacturing companies can build trust with investors, lenders, and other stakeholders, facilitating access to capital and promoting business growth.

C. Decision-Making Support: Effective management decision-making in a manufacturing company heavily relies on accurate financial information and analysis. Accounting professionals provide critical support by analysing financial data, evaluating performance metrics, and conducting financial forecasting. Their insights and reports help management make informed decisions on pricing, production volume, investment in new equipment, product development, and resource allocation. By considering the financial implications of various options, accounting professionals contribute to the overall success and profitability of the manufacturing company.

D. Compliance and Risk Management: Manufacturing companies are subject to various legal and regulatory requirements, and accounting professionals are crucial in ensuring compliance. They are responsible for staying current with accounting and tax regulations, implementing internal controls, and conducting audits to detect and mitigate financial risks. By managing accounting jobs effectively, manufacturing companies can minimise the risk of economic irregularities, fraud, and non-compliance, safeguarding the company's reputation and financial well-being.

E. Performance Evaluation: Accounting professionals assist in evaluating the performance of a manufacturing company by providing financial analysis and key performance indicators (KPIs). They generate reports that assess profitability, efficiency, liquidity, and other financial metrics. These insights enable management to identify areas of strength, weakness, and improvement. By monitoring financial performance, accounting professionals contribute to the continuous improvement of operations and the overall success of the manufacturing company.

In summary, managing accounting jobs in a manufacturing company is crucial for effective cost management, accurate financial reporting, informed decision-making, compliance with regulations, and performance evaluation. Accounting professionals provide the necessary expertise to track costs, ensure financial accuracy, and support management in making strategic decisions. Their role is essential for the manufacturing company's financial health and long-term success.

Conclusion:

The analysis of costing methods and recommendations for Swipe 50 Limited provide valuable insights into the company's financial performance, decision-making processes, and opportunities for improvement. By preparing profit statements using absorption costing and variable costing methods, we gained a comprehensive view of the company's profitability for February and March. Reconciling the profits calculated under each method highlighted the impact of fixed manufacturing overhead costs on reported profits and allowed a deeper understanding of the observed variations.

The differences between absorption costing and variable costing were explained, emphasising how each method treats fixed manufacturing overhead costs and how it influences the reported profit. Absorption costing incorporates fixed overhead costs into the cost of goods sold, resulting in a gain that is affected by production levels. On the other hand, variable costing treats set overhead costs as a period expense, enabling a focus on the contribution margin and facilitating internal decision-making. The importance of each method was discussed, with absorption costing being crucial for external financial reporting and variable costing playing a significant role in internal decision-making and product profitability analysis.

Furthermore, recommendations were provided to improve Swipe 50 Limited's accounting systems. Activity-based costing (ABC) would allow for more accurate cost allocation and a better understanding of product costs. Enhancing cost control and analysis would optimise expenses, increase profitability, and identify cost-saving opportunities. Integrating accounting software would streamline processes, improve accuracy, and provide real-time financial information for informed decision-making. Strengthening internal controls and investing in employee training and development would ensure compliance, mitigate financial risks, and enhance the overall efficiency and effectiveness of the accounting function.

Managing accounting jobs was highlighted as necessary in a manufacturing company for several reasons. Accounting professionals are vital in cost management, financial reporting, decision-making support, compliance, and performance evaluation. Their expertise and analysis contribute to accurate cost tracking, informed decision-making, and stakeholder trust. Effective accounting systems provide the foundation for sound financial management, regulatory compliance, and improved performance in the competitive manufacturing industry.

By adopting appropriate costing methods, implementing recommended improvements to accounting systems, and recognising the importance of managing accounting jobs, Swipe 50

Limited can enhance its financial management, profitability, and competitiveness. The analysis and recommendations in this report guide the company's management to make informed decisions, streamline processes, and drive the company towards sustained growth and success in the dynamic manufacturing industry. By leveraging accurate financial information, efficient cost management, and strategic decision-making, Swipe 50 Limited can position itself as a leader in the market while optimising its financial performance and profitability.

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