COVER PAGE AND DECLARATION

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Introduction

Swipe50 Limited, a specialized manufacturer of laptop computer screen protectors, has been in operation for three years. With a refined production process, the company is now focusing on analysing the income and costs associated with its activities. In particular, the Chief Financial Officer (CFO), Tamara J. Blooms, seeks to understand how both absorption costing and variable costing impact the company's profits. This report provides a detailed analysis of Swipe50 Limited's profit statements for the months of February and March, using both absorption and variable costing methods. The report considers production and sales volumes, direct materials, direct labour, variable production overhead, fixed production overhead, and selling and administrative expenses. By examining these financial aspects, the CFO aims to gain insights into the profitability of Swipe50 Limited and make informed decisions to drive the company's success.

Profit Statement for swipe50 Limited

- Profit Statement for Swipe50 Limited using Absorption Costing:

a. February Profit Statement – Absorption Coasting:

- ➢ Sales Revenue: 11,500 units × €22 = €253,000
- ➢ Cost of Goods Sold:

Opening inventory: 0 units (as of January 31)

Direct Materials: €29,000

Direct Labour: €19,000

Variable Production Overhead: €7,300

Fixed Production Overhead: €28,600

- ➢ Total Manufacturing Costs:

= Direct Materials+ Direct Labour + Variable Production Overhead + Fixed Production Overhead

= €29,000 + €19,000 + €7,300 + €28,600 = €83,900

- ➢ Gross Profit:

= Sales Revenue - Cost of Goods Sold

= €253,000 - €83,900

= €169,100

- ➢ Selling and Administrative Expenses: €44,500
- ➢ Net Profit:

= Gross Profit - Selling and Administrative Expenses

= €169,100 - €44,500 = €124,600

b. March Profit Statement – Absorption Coasting:

- ➢ Sales Revenue = 15,500 units × €22 = €341,000
- ➢ Cost of Goods Sold:

Opening inventory: 1,000 units (from February)

Units produced: 14,500

Units sold: 15,500

Closing inventory: 1,000 units

Direct Materials: €33,250

Direct Labour: €22,000

Variable Production Overhead: €8,500

Fixed Production Overhead: €28,600

- Total Manufacturing Costs:

  = Direct Materials+ Direct Labour + Variable Production Overhead + Fixed Production Overhead

  = €33,250 + €22,000 + €8,500 + €28,600 = €92,350

- Gross Profit:

  = Sales Revenue - Cost of Goods Sold

  = €341,000 - €92,350

  = €248,650

- Selling and Administrative Expenses: €57,100

- Net Profit:

  = Gross Profit - Selling and Administrative Expenses

  = €248,650 - €57,100 = €191,550

- Profit Statement for Swipe50 Limited using Variable Costing:

  a. February Profit Statement – Variable Coasting:

- Sales Revenue: 11,500 units × €22 = €253,000

- Variable Costs:

  Direct Materials: €29,000

  Direct Labour: €19,000

  Variable Production Overhead: €7,300

- Total Variable Costs: Direct Materials + Direct Labour + Variable Production Overhead

  = €29,000 + €19,000 + €7,300

  = €55,300

- Contribution Margin: Sales Revenue - Variable Costs

  = €253,000 - €55,300

  = €197,700

  Selling and Administrative Expenses: €44,500

- Net Profit:

  = Contribution Margin - Fixed Production Overhead - Selling and Administrative Expenses

  = €197,700 - €44,500 = €153,200

b. March February Profit Statement – Variable Coasting:

- Sales Revenue: 15,500 units × €22 = €341,000
- Variable Costs:

  Direct Materials: €33,250

  Direct Labour: €22,000

  Variable Production Overhead: €8,500
- Total Variable Costs:

  = Direct Materials + Direct Labour + Variable Production Overhead

  = €33,250 + €22,000 + €8,500

  = €63,750
- Contribution Margin:

  = Sales Revenue - Variable Costs

  = €341,000 - €63,750

  = €277,250

  Selling and Administrative Expenses: €57,100
- Net Profit:

  = Contribution Margin - Fixed Production Overhead - Selling and Administrative Expenses

  = €277,250 - €57,100 = €191,550

The profit statements for Swipe 50 Limited, prepared using absorption costing and variable costing, reveal the following results:

For February:

Absorption costing net profit: €124,600

Variable costing net profit: €153,200

For March:

Absorption costing net profit: €191,550

Variable costing net profit: €220,150

The net profit figures differ between absorption and variable costing due to the treatment of fixed production overhead costs. Absorption costing allocates fixed overhead to units produced, impacting the closing inventory value, while variable costing treats fixed overhead as a period expense. Thus, the choice of costing method affects the reported profit figures.

It is important for Swipe 50 Limited to consider these differences in profits when making financial decisions and evaluating the performance of their product, Plus Swipes.

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 consider the treatment of fixed production overhead in both costing methods. This reconciliation adjustment helps align the reported profits obtained from each method.

In absorption costing, fixed production overhead is allocated to the cost of goods sold. This means that a portion of fixed production overhead is included in the inventory value. As a result, the reported profit using absorption costing is impacted by the amount of fixed production overhead allocated to the inventory.

On the other hand, variable costing treats fixed production overhead as a period cost. It is expensed in the period it is incurred and is included in the selling and administrative expenses rather than being allocated to the cost of goods sold.

The difference between the profits calculated using absorption costing and variable costing arises due to the treatment of fixed production overhead. To reconcile these profits, we need to adjust the net profit calculated using absorption costing by considering the portion of fixed production overhead that is included in the inventory value but not expensed under variable costing. (Weygandt, Kimmel, & Kie, 2009)

To perform the reconciliation, we follow these steps:

1. Determine the change in inventory: The change in inventory is the difference between the units produced and the units sold. It represents the number of units that were not expensed in the period.

   The reconciled net profit for Swipe50 Limited for the month of February:

   Change in Inventory = Production - Sales

   = 12,500 - 11,500

   = 1,000 units

2. Calculate the fixed production overhead per unit: Divide the total fixed production overhead for the period by the number of units produced. This gives us the amount of fixed production overhead allocated to each unit.
   Fixed Production Overhead per Unit = Fixed Production Overhead / Production
   = €28,600 / 12,500
   = €2.288
3. Multiply the change in inventory by the fixed production overhead per unit: This gives us the amount of fixed production overhead that was not expensed under variable costing.
4. Add the result from step 3 from the net profit calculated using absorption costing: This adjusted amount represents the reconciled net profit under variable costing.
   Reconciled Net Profit = €124,600+ (1,000 × €2.288)
   = €124,600 + €2,288
   = €126,888
   The reconciled net profit for Swipe50 Limited for the month of February using variable costing is €126,888.

   Similarly, the reconciliation for the month of March performed by using the corresponding production, sales, fixed production overhead, and change in inventory values.

   Change in Inventory = Production - Sales
   = 14,500 - 15,500
   = -1,000 units (negative indicates an increase in inventory)
   Fixed Production Overhead per Unit = Fixed Production Overhead / Production
   = €28,600 / 14,500
   ≈ €1.972
   Adjustment = Change in Inventory × Fixed Production Overhead per Unit
   = -1,000 units × €1.972
   = -€1,972 (negative indicates a reduction in profit)
   Net Profit using Absorption Costing = €191,550 (as previously calculated)
   Reconciled Net Profit = €191,550 + (-€1,972)
   = €189,578.

The reconciliation of the net profits calculated using absorption costing to the net profits calculated using variable costing provides insights into the impact of the treatment of fixed production overhead costs on reported profits. Let's discuss the results of the reconciliation.

- February Reconciliation:

The initial net profit calculated using absorption costing for February was €124,600, while the net profit calculated using variable costing was €153,200. After reconciling, the net profit using absorption costing becomes €126,888.

The reconciliation adjustment of €2,288 accounts for the change in closing inventory caused by the inclusion of fixed production overhead costs in absorption costing. In this case, the closing inventory increased by 1,000 units, resulting in higher carrying value and lower reported net profit under absorption costing.

The reconciliation reveals that the difference between the net profits calculated using absorption costing and variable costing is primarily due to the treatment of fixed production overhead costs and their impact on inventory valuation.

- March Reconciliation:

The initial net profit calculated using absorption costing for March was €191,550, while the net profit calculated using variable costing was €220,150. After reconciling, the net profit using absorption costing becomes €189,578.

The reconciliation adjustment of -€1,972 reflects a decrease in net profit under absorption costing due to a decrease in closing inventory by 1,000 units. This adjustment emphasizes the fact that absorption costing includes fixed production overhead costs in inventory valuation, which can lead to fluctuations in reported profits.

Overall, the reconciled net profits using absorption costing are slightly lower than the net profits calculated using variable costing for both February and March. This indicates that the inclusion of fixed production overhead costs in inventory valuation in absorption costing results in a lower reported profit compared to variable costing.

The results of the reconciliation highlight the importance of understanding the implications of different costing methods on reported profits. Managers and stakeholders need to consider the underlying assumptions and effects of each method to make informed decisions and assess the financial performance of the company accurately.

Furthermore, the reconciled figures can be useful for evaluating the profitability of the company and comparing performance across different periods. They provide a clearer picture of the impact of fixed production overhead costs on reported profits and help in assessing the true profitability of the company's operations.

Difference Between Absorption Costing Method Vs. Variable Costing method and the importance of them.

Absorption costing and variable costing are two different methods of assigning costs to products or services. They differ in the way they treat fixed production overhead costs and their impact on inventory valuation and reported profits. Let's explore the differences between the two methods and discuss their importance.

Absorption Costing:

Absorption costing is a method that assigns both variable and fixed production costs to products. It includes direct materials, direct labour, variable production overhead, and a portion of fixed production overhead in the cost of goods sold. Fixed production overhead costs are allocated to units produced and become part of the inventory valuation. (Charles, George, & Srikant, 1999)

Key Features of Absorption Costing:

- Fixed production overhead costs are spread across units produced.
- Fixed production overhead costs are included in the cost of goods sold.
- The closing inventory carries a portion of fixed production overhead costs.

Importance of Absorption Costing:

- Accurate Inventory Valuation: Absorption costing provides a comprehensive view of the total cost incurred in producing each unit by allocating fixed production overhead costs to inventory. This helps in accurate inventory valuation for financial reporting and decision-making purposes.
- Compliance with Financial Reporting Standards: Many accounting standards and regulations require the use of absorption costing for external financial reporting to ensure consistency and comparability across companies.

- Long-Term Profitability Analysis: Absorption costing considers all production costs, including fixed costs. It provides insights into the long-term profitability of products by ensuring that fixed costs are covered over a larger production volume. (Drury, 2010)

Variable Costing:

Variable costing, also known as direct costing or marginal costing, only assigns variable production costs to products. It includes direct materials, direct labor, and variable production overhead in the cost of goods sold. Fixed production overhead costs are treated as a period expense and are not allocated to units produced. (Charles, George, & Srikant, 1999)

Key Features of Variable Costing:

- Fixed production overhead costs are treated as a period expense.
- Only variable production costs are included in the cost of goods sold.
- Fixed production overhead costs do not affect inventory valuation. (Drury, 2010)

Importance of Variable Costing:

- Contribution Margin Analysis: Variable costing focuses on the contribution margin, which is the difference between sales revenue and variable costs. It helps in analyzing the profitability of each unit sold and provides insights into the short-term financial performance. (Drury, 2010)
- Decision-Making: Variable costing highlights the per-unit variable costs, allowing managers to make decisions based on the incremental costs and revenues associated with producing additional units.
- Performance Evaluation: Variable costing separates fixed costs from the cost of goods sold, enabling a clearer assessment of the impact of sales volume on profitability and performance. (Drury, 2010)

Importance of Understanding Both Methods:

Both absorption costing and variable costing have their significance in different contexts. Understanding and analysing both methods is crucial for the following reasons:

- Financial Reporting: Absorption costing is often required for external financial reporting, ensuring compliance with accounting standards and regulations.
- Internal Decision-Making: Variable costing provides valuable information for short-term decision-making, such as pricing, product mix, and special orders.

- Evaluating Long-Term Profitability: Absorption costing considers all costs, including fixed costs, providing insights into long-term profitability and ensuring that all costs are recovered over time.
- Comparability and Analysis: By understanding both methods, companies can compare results, analyse the impact of cost structures, and make informed decisions based on different cost perspectives. (Weygandt, Kimmel, & Kie, 2009)

In conclusion, the differences between absorption costing and variable costing lie in the treatment of fixed production overhead costs and their impact on inventory valuation and reported profits. Each method has its importance in financial reporting, decision-making, and assessing long-term profitability. Understanding and analysing both methods are essential for accurate cost measurement, effective decision-making, and evaluating the financial performance of a company. (Weygandt, Kimmel, & Kie, 2009)

Three ways to improve Swipes 50 Ltd. accounting systems

Swipes 50 Ltd. can improve its accounting systems in several ways to enhance efficiency, accuracy, and decision-making. Here are three key suggestions:

1. Implement Costing System Enhancements:
    - Activity-Based Costing (ABC): Swipes 50 Ltd. can consider implementing an ABC system to allocate costs more accurately. ABC identifies and assigns costs based on the activities involved in producing each product. This method provides a more precise understanding of the costs associated with different activities, allowing for better cost control and informed decision-making. (Kinney & Raiborn, 2011)
    - Standard Costing: Establishing standard costs for materials, labor, and overhead can help Swipes 50 Ltd. compare actual costs to predetermined benchmarks. This allows for better cost variance analysis and identification of areas for improvement. Standard costing enables the company to evaluate performance, optimize resource utilization, and control costs more effectively. (Kinney & Raiborn, 2011)
    - Costing Software: Investing in reliable costing software can streamline cost calculations, automate data collection, and enhance data accuracy. Such software often includes features for inventory valuation, cost allocation, and variance analysis, simplifying the accounting

processes and providing real-time insights into costs and profitability. (Kinney & Raiborn, 2011)

2. Strengthen Financial Reporting and Analysis:
   - Timely and Accurate Financial Statements: Swipes 50 Ltd. should focus on generating timely and accurate financial statements, including income statements, balance sheets, and cash flow statements. This ensures that management and stakeholders have access to up-to-date financial information for decision-making purposes. (Coombs, Hobbs, & jenkins, 2005)
   - Enhanced Cost Analysis: The company can benefit from conducting comprehensive cost analyses to understand the profitability of different products, customer segments, or distribution channels. By analysing costs at various levels, Swipes 50 Ltd. can identify opportunities for cost reduction, pricing optimization, and strategic decision-making.
   - Key Performance Indicators (KPIs): Developing and tracking KPIs related to costs, sales, profitability, and efficiency can provide valuable insights into the company's financial performance. KPIs such as gross margin, contribution margin, and return on investment (ROI) can help monitor progress, set targets, and facilitate performance evaluation. (Coombs, Hobbs, & jenkins, 2005)
3. Strengthen Internal Controls:
   - Segregation of Duties: Swipes 50 Ltd. should ensure that responsibilities within the accounting system are properly segregated to prevent fraud and errors. Separating duties such as authorization, recording, and custody of assets helps establish checks and balances and reduces the risk of fraudulent activities. (Coombs, Hobbs, & jenkins, 2005)
   - Regular Internal Audits: Conducting regular internal audits can help identify weaknesses or gaps in the accounting system and internal controls. Internal auditors can review processes, procedures, and financial transactions to ensure compliance, accuracy, and effectiveness. This enables prompt identification and resolution of any issues or risks. (Coombs, Hobbs, & jenkins, 2005)
   - Data Security and Backup: Swipes 50 Ltd. should implement robust data security measures to protect sensitive financial information. This includes secure data storage, regular

backups, and access controls to mitigate the risk of data breaches or loss. (Coombs, Hobbs, & jenkins, 2005)

Improving the accounting systems of Swipes 50 Ltd. in these ways will enhance the accuracy and reliability of financial information, enable better cost control and analysis, and support informed decision-making processes. (Coombs, Hobbs, & jenkins, 2005)

Importance of managing accounting jobs in a manufacturing company

Managing accounting jobs are crucial in a manufacturing company for several reasons:

1. Cost Control and Profitability Analysis: Manufacturing companies deal with various costs, including direct materials, labour, overhead, and production expenses. Managing accounting jobs, such as cost accountants or controllers, helps monitor and control costs effectively. These professionals analyse cost data, identify cost-saving opportunities, and implement strategies to improve profitability. They provide insights into product costing, pricing decisions, and cost optimization, ensuring that the company operates efficiently and remains competitive. (Coombs, Hobbs, & jenkins, 2005)
2. Financial Reporting and Compliance: Manufacturing companies need to generate accurate and timely financial reports to meet legal and regulatory requirements. Managing accounting jobs, such as financial accountants or controllers, ensure that financial statements are prepared in accordance with accounting standards and regulatory guidelines. These professionals handle financial transactions, maintain general ledgers, reconcile accounts, and prepare financial reports for internal and external stakeholders. Reliable financial reporting facilitates informed decision-making, builds investor confidence, and ensures compliance with legal obligations. (Coombs, Hobbs, & jenkins, 2005)
3. Budgeting and Forecasting: Manufacturing companies often engage in budgeting and forecasting processes to plan and control their operations effectively. Managing accounting jobs, such as budget analysts or financial planners, play a vital role in developing budgets, estimating costs, and projecting future financial performance. They collaborate with other departments to gather relevant data, analyse trends, and create realistic budgets aligned with the company's goals. Accurate budgeting and forecasting help monitor performance, allocate resources efficiently, and identify areas for improvement. (Coombs, Hobbs, & jenkins, 2005)
4. Inventory Management and Costing: Inventory is a significant asset for manufacturing companies, and managing it effectively is crucial. Cost accountants or inventory managers

play a key role in tracking and valuing inventory, ensuring accurate costing, and minimizing stockouts or excess inventory. These professionals use accounting systems to assign costs to inventory, conduct periodic inventory reconciliations, and implement inventory control measures. Effective inventory management ensures optimal utilization of resources, reduces carrying costs, and improves cash flow. (Coombs, Hobbs, & jenkins, 2005)

5. Decision Support and Performance Evaluation: Managing accounting jobs provide decision support and performance evaluation services to manufacturing companies. Cost accountants or financial analysts generate relevant financial and operational data, conduct cost analyses, and provide insights for strategic decision-making. They perform variance analysis, evaluate key performance indicators (KPIs), and support management in assessing the company's financial health and operational efficiency. Their expertise helps identify areas of improvement, support investment decisions, and facilitate performance evaluation against targets and benchmarks. (Kinney & Raiborn, 2011)

In summary, managing accounting jobs are essential in a manufacturing company as they contribute to cost control, financial reporting, budgeting, inventory management, decision support, and performance evaluation. These roles ensure accurate financial information, facilitate informed decision-making, optimize resource allocation, and drive the company's financial success. (Charles, George, & Srikant, 1999)

Conclusion

In conclusion, managerial accounting provides invaluable insights to managers and executives, enabling them to make informed decisions about resource allocation, cost management, pricing strategies, performance evaluation, and overall business strategy. It helps identify areas of inefficiency, cost reduction opportunities, and growth potential. By providing accurate and timely financial information, managerial accounting facilitates effective planning, control, and decision-making, ultimately leading to improved operational efficiency, profitability, and long-term success for organizations.

Managerial accounting is an indispensable discipline that empowers managers to navigate complex business challenges, make informed decisions, and drive organizational success. It combines financial expertise with strategic thinking to support effective planning, control, and performance management, serving as a crucial tool for business leaders in achieving their goals and objectives.

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