COVER PAGE AND DECLARATION

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1) Prepare a profit statement for Swipe 50 Limited for the month of February and March using

a) Absorption Method

Swipe 50 Limited

Absorption Income Statement

For the Month of February and March

Units Sold	11,500		15,500	
	€		€	
Selling price	22		22	
		€		€
Sales		253,000		341,000
Production costs:				
Direct materials	26,680		35,570	
Direct labor	17,480		23,520	
Variable Production Overhead	6,716		9,084	
Fixed Production Overhead	<u>26,312</u>		<u>30,888</u>	
Total Production cost		<u>77,188</u>		<u>99,062</u>
		€		€
Gross profit		175,812		241,938
Selling and administrative expense:				
Variable selling and administrative expense	€ 36,225		€ 48,825	
Fixed Administrative expense	<u>€</u>		<u>€</u>	

	8,275		8,275	
Total Selling and administrative expense		€ 44,500		€ 57,100
Net income		€ 131,312		€ 184,838

b) Variable Costing

Swipe 50 Limited

Variable Income Statement

For the Month of February and March

Units Sold	11,500		15,500	
Selling price	€ 22		€ 22	
Sales		€ 253,000		€ 341,000
Variable costs:				
Direct materials	26,680		35,570	
Direct labor	17,480		23,520	
Variable Production Overhead	6,716		9,084	
Variable Administrative expense	36,225		48,825	
Total variable cost		87,101		116,999
Contribution margin		€ 165,899		€ 224,001
Fixed costs:				
Fixed Production Overhead	€ 28,600		€ 28,600	
Fixed Administrative expense	€ 8,275		€ 8,275	
Total fixed cost		€ 36,875		€ 36,875
Net income		€ 129,024		€ 187,126

2) **Reconcile the profit calculated using absorption costing to that using variable costing**

Swipe 50 Limited

Reconciliation of Profit Using Absorption and Variable Income Statement Methods

For the Month of February and March

		Feb		Mar
Profit as per absorption costing	€	131,312	€	184,838
Add: inventory undervaluation		0		2,288
	€	131,312	€	187,126
Less: inventory overvaluation		2,288		0
	€	129,024	€	187,126

3) **Explain how each method differs from the other method and also explain the importance of each method.**

Costing Methods

One of the most significant results that a manufacturing business reports on its financial accounts is operating income on the income statement. This result is used by outside parties to assess a company's performance and how it affects them, including creditors, investors, and governmental organizations. Operating income is a metric used by managers and other employees of a firm to assess and enhance operational performance. The income statement is prepared in two ways, which are the variable costing and absorption costing methods. Generally Accepted Accounting Principles (GAAP) mandate absorption costing for external reporting. Until the product is sold, all production expenses, whether fixed or variable, must be recognized as product cost and recorded as inventory on the balance sheet. The cost of the product is charged to the income statement as the cost of goods sold once it is sold.

In both cases, the cost of the product is based on direct costs (materials and labor) and variable factory overhead costs. How the fixed production overhead costs are handled differs between the two costing approaches. Regardless of whether the product has yet to be sold, under variable costing, fixed factory overhead costs are deducted in the period in which they are incurred. Fixed manufacturing overhead costs are only deducted under absorption costing when the product is sold. Variable costing and absorption costing methods differ in the treatment of fixed production overhead costs. In variable costing, fixed factory overhead costs are deducted in the period in which they are incurred, regardless of whether the product has been sold or not. On the other hand, absorption costing only deducts fixed manufacturing overhead costs when the product is sold.

Absorption Costing Method

Absorption costing, sometimes referred to as traditional costing, is a cost accounting method that captures all the costs relating to manufacturing a particular product. All the direct and indirect costs are accounted for in this method. Raw materials, labor, and any other direct expenses incurred throughout the production process are considered to be direct costs since they can be linked directly to a particular product. Indirect costs refer to the costs that can't be directly linked to a particular product or service. These costs, usually referred to as fixed overhead costs, consist of things like rent, utilities, and insurance. Typically, indirect costs are assigned to goods or services based on some metric of activity, such as the quantity produced or the number of direct labor hours needed to produce the good (Langfield-Smith, Thorne, & Hilton, 2018). Direct and indirect costs are both factored into a product's cost when using absorption costing. This means that in addition to the direct cost of producing each unit, the unit cost of a product also includes a share of the indirect costs incurred during the production process. The cost of each unit is then calculated by dividing the total manufacturing costs by the number of units produced.

Importance of Absorption Costing Method

It considers fixed manufacturing costs. Absorption costing correctly acknowledges the significance of factoring in fixed production costs when estimating product costs and setting an appropriate pricing strategy. Fixed production costs are utilized in the manufacturing of goods and services in the same proportion as variable production costs. Similarly, pricing based on absorption costing assures that all costs are covered. In the long run, pricing that is established only in terms of variable costs (as is encouraged by variable costing) may leave a contribution margin insufficient to cover fixed costs. However, it's crucial that sales equal to or surpass the planned level of output since otherwise, all fixed manufacturing costs will not be covered and will only be partially absorbed.

It conforms with accrual and matching concepts of accounting. The absorption method acts under accrual and matching accounting ideas, which call for matching expenses and revenues for a specific accounting period (Drury, 2018). When a unit of fixed manufacturing overhead is sold, the cost is immediately added to the Cost of Goods Sold account and is reflected as an expense on the income statement. The remaining fixed manufacturing overhead that has not been sold is recorded in the inventory account rather than as an expense. Because these costs need to match the sale of that inventory, the matching idea that underpins absorption costing is used.

Recognized in external reporting. Absorption costing is acknowledged in creating external reports and value stocks. For instance, FASB has suggested absorption costs as a method for achieving these goals. This costing approach is employed for external reporting since it provides an overview of all operating costs by product and period.

Discloses Over-absorption and Under-absorption. The under- and over-utilization of production resources are revealed by the absorption costing method's reporting of manufacturing overheads, which is impossible to do with variable costing. Absorption costing provides a comprehensive approach to capturing all costs associated with manufacturing a product, including both direct and indirect costs. Direct costs, such as raw materials and labor, are directly linked to a specific product, while indirect costs, also known as fixed overhead costs, cannot be directly attributed to a particular product or service. These indirect costs include expenses like rent, utilities, and insurance. Absorption costing assigns indirect costs to goods or services based on an activity metric, such as the quantity produced or the number of direct labor hours required.

Variable Costing Method

Variable costing is a method that considers only variable production costs in determining the product cost per unit. Variable costs include direct material cost, direct labor cost, and variable manufacturing overhead. Under this costing method, only the manufacturing costs that change directly with the output level are considered product costs. The method treats fixed costs as period costs, just like selling and administrative expenses. Variable costing has no place in financial reporting because the accounting frameworks (such as GAAP and IFRS) call for overhead to also be allocated to inventories (Drury, 2018). Due to its weak ability to connect revenues with all associated expenses, variable costing is not recommended by the frameworks. When using variable costing, overhead costs are immediately charged to expenses rather than waiting until the corresponding sales are made (which could be in a later period). As a result, this methodology is only employed for internal reporting needs.

Importance of Variable costing

Operational planning. The management requires data on variable costs and contribution margins every day to make choices about special orders, capacity expansion, and production shutdowns, among others. Variable costing may easily provide this data.

Managers can create a variable income statement using the data from variable costing, which enables more efficient cost-volume-profit (CVP) analysis. Managers can calculate break-even points, contribution margin ratios, and goal profit points, and perform sensitivity analysis by dividing variable and fixed costs (Eldenburg, et al., 2020). In contrast, absorption costing complies with U.S. GAAP regulations but is less effective for internal decision-making.

The method prevents managers from raising output just to boost profits. For instance, assume the manager at Swipe 50 Limited will earn a bonus for attaining a certain profit target but expects to be $11,000 short of the target. The company applies absorption costing, and the manager realizes raising production will increase profit. The manager decides to produce 25,000 units in month 2, even though only 12,500 units will be sold. 50% of the $50,000 in fixed production cost ($25,000) will be included in inventory at the end of the period, thereby decreasing costs on the income statement and increasing profit by $25,000. This will eventually catch up with the manager because the company will have extra or outdated inventory in subsequent months. However, the manager will boost profit in the short term by raising production. This technique is ineffective when using variable costing because all fixed manufacturing overhead costs are expensed as incurred, regardless of the volume of sales. Variable costing is important for operational planning, as it provides data on variable costs and contribution margins. Managers can use this data to make informed decisions about special orders, capacity expansion, and production shutdowns. Variable costing also allows for more effective cost-volume-profit analysis, enabling the calculation of break-even points, contribution margin ratios, and goal profit points. Additionally, variable costing prevents profit manipulation by expensing fixed manufacturing overhead costs as they are incurred, regardless of sales volume. This promotes accurate reporting and discourages actions that artificially inflate profits. Overall, variable costing aids in decision-making and ensures long-term profitability.

Explain three ways that Swipes 50 Ltd. can improve its accounting systems

Swipes 50 Ltd. is a manufacturing company that incurs both the product and the period costs. Manufacturing is different from other business kinds. Retailers sell inventory, and service providers charge for their time, but only producers of new goods work on the products from scratch; this may result in accounting issues. Manufacturing companies must calculate the value of the final products they produce in addition to their costs for raw materials and processing. There are numerous ways to accomplish this. Management must make the appropriate choice for the company and implement it correctly. Three ways to improve accounting systems are by choosing the right accounting methods, keeping track of the company data, and analyzing and improving the company's manufacturing process. To improve its accounting systems, Swipes 50 Ltd. can focus on three key areas. Firstly, selecting the appropriate accounting methods, such as absorption costing or variable costing, to accurately allocate costs. Secondly, implementing robust data tracking systems to ensure comprehensive and accessible records of expenses and production data. Finally, analyzing and optimizing the manufacturing process to enhance efficiency, reduce costs, and improve financial performance. By addressing these areas, Swipes 50 Ltd. can strengthen its accounting practices and make informed decisions for sustainable growth.

Choosing the right accounting methods

The company can choose the best accounting method after determining the right accounting software to use in its operations. The company should choose accounting software that was developed with input from manufacturers, therefore enabling it to efficiently handle the business needs. The company must work out the accounting methods best fit the business. Other than absorption and variable costing methods, below are some of the accounting methods that the business can consider.

- Job order costing. In contrast to product tracking, batch production is typically employed. It is determined by keeping track of the number of labor hours and raw material units needed for each batch.
- Activity-based costing. Using the activity-based costing (ABC) method, overhead and indirect expenses are allocated to linked goods and services. In contrast to conventional costing techniques, this accounting method of costing acknowledges the connection between

costs, overhead activities, and manufactured goods, allocating indirect costs to products less randomly.

- Process costing. Useful if you operate a production line that consistently produces the same goods or components. Instead of accounting for costs per job, departments are used in tracking the costs. According to this method, costs are accumulated over a predetermined amount of time, summed up, and then uniformly distributed to all the units produced during that time.

Keeping track of the company data

Once the company accounting system is established with the right methods, you're ready to start tracking valuable business information. The company needs to track transactions, which include revenue and expenses within a particular period. The transactions should be categorized in the right ledger, whether that is expenses, current liabilities, or accounts payable, among others. Assets and liabilities should be recognized in the balance sheet as of a given date. There is a need for management to keep a close eye on the amount of cash in the company's balance at any time.

Inventory tracking is very important, especially in the manufacturing sector. The most fundamental responsibility of the company is to ensure it has the right quantities, which means, it needs accurate inventory tracking as part of its stock management system. Inventory tracking is the practice of keeping track of stock levels throughout a company's activities. These are constantly changing as new products are introduced and consumers make purchases, either to replace goods that have already been sold to those customers or in anticipation of shifting demand patterns. Inventory tracking is important for the company because it helps meet consumer demand and determine the amount of money at stake. Keeping track of company data is essential for effective financial management. This involves tracking transactions, categorizing them correctly in the ledger, and recognizing assets and liabilities on the balance sheet. Cash management and inventory tracking are also crucial. Accurate data tracking enables informed decision-making, ensures adequate cash flow, and helps meet customer demand.

Analyzing and improving the company's manufacturing process

With the proper establishment of the accounting processes, the company cannot only track its financial performance but also efficient business operations and improve on the areas that are not doing well. Some of the analyses that can be carried out to determine the efficiency performance areas are discussed below.

- Cost analysis. Assess costs over a defined period. It is important to ascertain the amount spent and the way changes in input price affect product costs and profits.
- Constraint analysis. Identify what drags the business behind, parts of the manufacturing process that does not add value to the company. The company will be able to increase production speed by widening the bottlenecks.
- Profitability analysis. Determine the amount of profit the company is making based on product, distribution channel, customer, and product line, among others. Although this is still helpful, constraint analysis, which is thought to be more accurate, is taking its place.
- Variance analysis. Variance analysis is known as the quantitative measurement of the discrepancy between actual results and the budget. This examination looks into areas where performance was surprisingly weak to keep control of the company.

4) State why managing accounting jobs is important in a manufacturing company

The activities of a manufacturing company are examined by management accounting for all actual and value-based costs. As opposed to financial accounting statements that adhere to external reporting rules, this information is used internally by managers to improve the management of the company and is not disclosed to outside creditors and shareholders. While there are many different approaches, most management accounting systems are predictive, and private, and rely on tailored information systems developed by the business. The activities of a manufacturing company are examined by management accounting for all actual and value-based costs. As opposed to financial accounting statements that adhere to external reporting rules, this information is used internally by managers to improve the management of the company and is not disclosed to outside creditors and shareholders. While there are several approaches, most management accounting systems use specialized information systems and are predictive and secret. Managing accounting jobs is important in a manufacturing company through the management of accounting systems, management accountants, accounting methods, and materials requirement planning. Managing accounting jobs in a manufacturing company is important for several reasons. It ensures the effective management of accounting systems, oversight of management accountants, selection and implementation of appropriate accounting methods, and efficient materials requirement planning. By managing these aspects, the company can maintain reliable financial information, support decision-making, optimize cost management, and improve operational performance.

Management accounting systems and management accountants

Each management accounting system is unique, but they always perform the same three core functions: planning, monitoring, and evaluating industrial activities. The objective is to precisely ascertain the true costs of goods so that they can be appropriately priced. Cost totals as well as expenditures per period are used to track labor, raw materials, and overhead expenses. By employing the proper quantity of workers, cutting waste, and recognizing and lowering all incurred indirect expenses, managers can optimize operations. A business employs a management accountant to review internal expenses and provide management with strategic insights. Since this function entails the supervision of fundamental journal entries, budgets, and operational costs, such an accountant must be familiar with both process and financial accounting (Hansen, et al., 2021). Internal costing procedures and generally recognized accounting principles are both enforced by a management accountant.

Accounting methods

Variance analysis serves as the foundation for management accounting. This regular comparison of actual and anticipated expenditures can spot significant process flaws right away. By identifying each manufacturing activity as the cost driver and focusing on sustaining a continuous workflow rather than lowering material or labor costs, activity-based costing extends the analysis. Variance and activity-based costing may be used to build a variety of unique accounting procedures. Accounting methods play a crucial role in managing accounting jobs in a manufacturing company. Variance analysis is a fundamental tool in management accounting that compares actual expenditures with anticipated costs. It helps identify process flaws and deviations from expected performance. By examining each manufacturing activity as a cost driver, activity-based costing takes variance analysis a step further. It focuses on maintaining a continuous workflow rather than solely reducing material or labor costs. This approach allows for the development of unique accounting procedures that align with the specific needs and characteristics of the manufacturing company. By utilizing variance analysis and activity-based costing, the company can gain valuable insights, optimize cost management, and drive process improvement.

Materials requirement planning

Real-time planning for a manufacturing facility is made possible by the integration of budgets and expenses in material requirements planning. This entails offering predicting models to satisfy demand and utilizing inventory numbers to fill open orders. The management group and labor force have a comprehensive understanding of impending orders and production requirements thanks to the master production schedule. Materials requirement planning (MRP) is a vital aspect of managing accounting jobs in a manufacturing company. It involves integrating budgets and expenses to facilitate real-time planning within the facility. By utilizing predictive models, MRP enables the company to anticipate and meet demand by efficiently managing inventory levels and fulfilling open orders. The master production schedule provides the management team and workforce with a comprehensive understanding of upcoming orders and production requirements. This integration of budgets, expenses, and production planning ensures that the company can effectively allocate resources, minimize inventory holding costs, and meet customer demands in a timely manner. Ultimately, MRP helps streamline operations, improve efficiency, and optimize the use of materials, contributing to the overall success of the manufacturing company.

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