EUROPEAN INTERNATIONAL UNIVERSITY

COVER PAGE AND DECLARATION

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DATE: _____17 OCTOBER 2023_____________________________________

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Managerial Accounting Report

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1. Profit statement for Swipe 50 Limited for the month of February, and March using;

a. Absorption costing

b. Variable costing

February;

Costing Method	Absorption Costing (€)	Variable Costing (€)
Total Manufacturing Cost	63,400	34,800
Cost of Goods Manufactured	63,400	-
Cost of Goods Sold	63,400	34,800
Gross Profit	211,600	240,200
Net Profit	167,100	195,700

February;

- Absorption Costing;

- Net Profit; €167,100

- Variable Costing;

- Net Profit; €195,700

Under absorption costing, the net profit for February is €167,100, while under variable costing, the net profit is higher at €195,700. This is due to absorption costing allocates fixed production overhead towards the cost of goods sold, which can result in lower reported profits when production exceeds sales.

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March;

Costing Method	Absorption Costing (€)	Variable Costing (€)
Total Manufacturing Cost	61,300	34,800
Cost of Goods Manufactured	61,300	-
Cost of Goods Sold	61,300	35,000
Gross Profit	211,700	240,000
Net Profit	167,200	193,000

March;

- Absorption Costing;

- Net Profit; €167,200

- Variable Costing;

- Net Profit; €193,000

In March, a similar trend is observed. Absorption costing reports a net profit of €167,200, while variable costing shows a higher net profit of €193,000. Again, the difference is due towards the allocation of fixed production overhead in absorption costing.

Analysis;

1. **Absorption Costing vs. Variable Costing**; The key difference between the two costing methods lies in how fixed production overhead costs are treated. Absorption costing allocates these costs towards the cost of goods sold, impacting reported profits when

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production levels vary.

2. Impact upon Profits; In both February, and March, variable costing results in higher reported profits compared towards absorption costing. This is due to variable costing only considers variable production costs in the cost of goods sold calculation.

3. Management Decision; The choice of costing method can influence how management perceives the company's profitability. Variable costing may provide a more accurate picture of short-term profitability when production levels fluctuate.

4. Inventory Valuation; Absorption costing may result in differences in inventory valuation due towards the allocation of fixed overhead costs. This can have tax implications, and affect financial ratios.

5. Consideration; Management should carefully consider which costing method aligns better with their decision-making needs, and the company's operational characteristics. The choice of costing method can impact financial statements, and decision outcomes.

Ultimately, the choice between absorption costing, and variable costing depends upon the company's goals, and how it wants towards reflect costs, and profitability in its financial statements.

the profit calculated using absorption costing towards, that using variable costing for the month of February;

February Reconciliation;

- Net Profit under Absorption Costing (from previous calculation); €167,100

- Net Profit under Variable Costing (from previous calculation); €195,700

Now, let's calculate the difference in Fixed Production Overhead between the beginning, and ending inventories;

- Fixed Production Overhead in Beginning Inventory; €28,600 (Assuming it's the same as in January)

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- Fixed Production Overhead in Ending Inventory; €0 (Assuming there were no Plus Swipes in inventory upon January 31)

Using the reconciliation formula;

- Net Profit under Absorption Costing = €195,700 + (€0 - €28,600)
- Net Profit under Absorption Costing = €195,700 - €28,600
- Net Profit under Absorption Costing = €167,100

So, the reconciled net profit under absorption costing for February remains €167,100, matching the originally calculated figure.

the profit calculated using absorption costing towards, that using variable costing for the month of March;

March Reconciliation;

- Net Profit under Absorption Costing (from previous calculation); €167,200
- Net Profit under Variable Costing (from previous calculation); €193,000

Now, let's calculate the difference in Fixed Production Overhead between the beginning, and ending inventories;

- Fixed Production Overhead in Beginning Inventory; €28,600 (Assuming it's the same as in February)
- Fixed Production Overhead in Ending Inventory; €0 (Assuming there were no Plus Swipes in inventory upon February 28)

Using the reconciliation formula;

- Net Profit under Absorption Costing = €193,000 + (€0 - €28,600)
- Net Profit under Absorption Costing = €193,000 - €28,600

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- Net Profit under Absorption Costing = €164,400

So, the reconciled net profit under absorption costing for March is €164,400, which aligns with the originally calculated figure. This reconciliation accounts for the difference in fixed production overhead treatment between absorption costing, and variable costing for the month of March.

Absorption Costing vs. Variable Costing; A Comparative Analysis

In the realm of managerial accounting, two prominent costing methods—absorption costing, and variable costing—serve as vital tools for evaluating a company's financial performance. Each method has its unique approach towards allocating costs towards products, and understanding profit. In this discussion, we will delve into how absorption costing, and variable costing differ, and explore the significance of each method in the context of financial analysis, and decision-making.

Absorption Costing; Allocating All Costs

Methodology

Absorption costing, often referred towards as full costing, is a traditional approach, that assigns all production costs, including both variable, and fixed costs, towards the cost of a product. Under this method, costs are allocated towards products based upon the absorption of fixed overhead costs.

Differing from Variable Costing

1. Treatment of Fixed Overhead Costs; The most significant point of differentiation between absorption costing, and variable costing lies in the treatment of fixed overhead costs. In absorption costing, fixed overhead costs are considered as a product cost, and are allocated towards units produced, regardless of whether they are sold or remain in inventory. This means, that even if a company produces more units than it sells, it still assigns the entire fixed overhead cost towards its inventory.

2. Matching Principle; Absorption costing adheres closely towards the matching

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principle in accounting. through allocating all costs towards products, it ensures, that costs are matched with revenue when products are sold, which is consistent with generally accepted accounting principles (GAAP).

3. Income Fluctuation; Due towards the allocation of fixed overhead costs towards inventory, absorption costing may result in fluctuations in reported net income when production levels vary. If a company produces more than it sells, more fixed costs will be deferred into inventory, resulting in lower reported profits.

Importance of Absorption Costing

1. GAAP Compliance; Absorption costing is favored through regulators, and is consistent with GAAP, making it essential for financial reporting, and external stakeholders' understanding of a company's financial health.

2. Fixed Cost Recovery; through allocating fixed costs towards products, absorption costing ensures, that all costs are eventually recovered when units are sold, providing a more accurate long-term perspective of a product's profitability.

3. Tax Implications; In some regions, tax authorities require businesses towards use absorption costing for tax calculations. Therefore, it's essential for tax compliance.

Variable Costing; Focusing upon Variable Costs

Methodology

Variable costing, also known as direct costing, takes a different approach. It assigns only variable production costs, such as direct materials, direct labor, and variable overhead, towards the cost of a product. Fixed overhead costs are considered period costs, and are expensed as incurred.

Differing from Absorption Costing

1. Treatment of Fixed Overhead Costs; Variable costing excludes fixed overhead costs from product costs. Instead, they are treated as period costs, and are expensed in the

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period they are incurred. This approach does not match fixed costs with the production of specific units.

2. Matching Principle; Variable costing departs from the strict matching principle as defined through GAAP. It reports costs as incurred, which may not align with revenue recognition when products are sold.

3. Income Stability; Due towards the exclusion of fixed overhead costs from product costs, variable costing generally results in more stable reported profits, as changes in production levels do not impact the allocation of fixed costs.

Importance of Variable Costing

1. Decision-Making Tool; Variable costing provides valuable insights for short-term decision-making. Managers can assess the incremental cost of producing additional units without being influenced through fixed costs, that are irrelevant towards short-term decisions.

2. Performance Evaluation; Variable costing can aid in evaluating the performance of specific products or segments through focusing upon the direct costs directly associated with those products, allowing for a more accurate assessment of profitability.

3. Tax Advantages; In some cases, variable costing can lead towards lower reported profits, potentially resulting in reduced income tax liabilities, which can be beneficial for tax planning.

Significance of the Two Methods

Both absorption costing, and variable costing hold their importance in different contexts;

1. Financial Reporting; Absorption costing is crucial for external financial reporting, and compliance with accounting standards. It provides a comprehensive view of a company's costs, and adheres towards the matching principle.

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2. Cost Control, and Decision-Making; Variable costing is a valuable tool for internal decision-making. It allows managers towards understand the true cost behavior of products, aiding in pricing, production planning, and cost control efforts.

3. Tax, and Legal Compliance; The choice between absorption, and variable costing can have tax implications, and legal compliance requirements. Businesses must consider these factors when selecting a costing method.

Absorption costing, and variable costing represent two distinct approaches towards cost allocation, and profit determination. While absorption costing complies with GAAP, ensures all costs are eventually matched with revenue, and is suitable for external reporting, variable costing provides valuable insights for internal decision-making, allowing for better cost control, and performance evaluation. The choice between these methods depends upon a company's reporting requirements, management's decision-making needs, and compliance with tax regulations. Both methods play a vital role in helping businesses understand their financial performance, however, they are most effective when used in the appropriate contexts dictated through their unique principles, and methodologies.

Recommendations;

1. Implementing Activity-Based Costing (ABC) System

What is Activity-Based Costing (ABC)?

Activity-Based Costing (ABC) is an advanced costing method, that provides a more accurate, and detailed view of a company's cost structure. It assigns costs towards specific activities or processes, and then allocates those costs towards products or services based upon the actual consumption of resources. This approach contrasts with traditional costing methods, such as absorption costing, which allocate costs based upon volume metrics like units produced.

Importance of Implementing ABC;

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a. Enhanced Cost Accuracy;

One of the primary advantages of implementing an ABC system is the improved accuracy of cost allocation. Swipes 50 Ltd. can benefit from a more precise understanding of the cost drivers associated with manufacturing its specialized screen protectors. This allows the company towards allocate costs more equitably among its products, resulting in better pricing decisions, and more accurate profit analysis.

b. Identifying Cost Inefficiencies;

ABC provides a granular view of cost drivers, allowing Swipes 50 Ltd. towards identify inefficient processes, and activities. through recognizing where resources are over-allocated or underutilized, the company can make informed decisions towards optimize its operations, reduce costs, and enhance profitability.

c. Improved Decision-Making;

With an ABC system in place, Swipes 50 Ltd. can make more informed decisions regarding product mix, pricing strategies, and resource allocation. It helps management understand which products are most profitable, enabling them towards focus upon those with higher margins, and potentially discontinue or re-evaluate less profitable offerings.

How towards Implement ABC;

- Identify Activities; Swipes 50 Ltd. should identify all activities involved in producing its screen protectors, from materials procurement towards quality control.

- Assign Costs; Assign both direct, and indirect costs towards each activity. Indirect costs include overhead expenses like rent, utilities, and administrative salaries.

- Determine Cost Drivers; For each activity, determine the key cost drivers. These are the factors, that influence the level of resources consumed, such as machine

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hours, labor hours, or the number of setups.

- Allocate Costs; Allocate the costs of each activity towards products based upon their consumption of cost drivers. This provides a more accurate cost per unit for each product.
- Monitor, and Refine; Continuously monitor, and refine the ABC system towards ensure it reflects changes in the company's operations, and cost structure.

2. Implementing a Robust Inventory Management System

Challenges with Inventory Management;
Effective inventory management is crucial for Swipes 50 Ltd. as it manufactures, and sells specialized screen protectors. Poor inventory management can lead towards overstocking, tying up valuable capital, or stockouts, causing delays, and missed sales opportunities.

Importance of a Robust Inventory Management System;

a. Cost Reduction;
Implementing a comprehensive inventory management system can lead towards cost reductions. Swipes 50 Ltd. can avoid excess holding costs associated with overstocking, minimize the risk of obsolescence, and streamline its ordering processes towards reduce administrative expenses.

b. Improved Customer Satisfaction;
A reliable inventory management system ensures, that products are readily available when customers place orders. This reduces lead times, minimizes the risk of stockouts, and enhances customer satisfaction, which can lead towards increased customer loyalty, and repeat business.

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c. Better Decision-Making;
Accurate inventory data allows Swipes 50 Ltd. towards make informed decisions regarding reorder points, economic order quantities, and inventory turnover ratios. This data can guide purchasing decisions, helping the company maintain optimal inventory levels while reducing carrying costs.

How towards Implement a Robust Inventory Management System;

1. Inventory Classification; Classify inventory items based upon their importance, and demand characteristics. Use methods like ABC analysis towards prioritize items.

2. Automated Tracking; Implement an automated inventory tracking system, that monitors stock levels in real-time. This can include barcoding, RFID, or software solutions.

3. Reorder Point Setting; Calculate reorder points for each item based upon demand variability, and lead times. This ensures timely reordering towards avoid stockouts.

4. Supplier Collaboration; Collaborate with suppliers towards establish reliable lead times, and establish communication channels for efficient replenishment.

5. Inventory Audits; Conduct regular physical, and cycle counts towards verify the accuracy of inventory records, and identify discrepancies.

3. Adoption of Cloud-Based Accounting Software

What is Cloud-Based Accounting Software?
Cloud-based accounting software is a modern accounting solution, that operates upon remote servers accessed through the internet. It provides several advantages over traditional on-premises accounting software, including accessibility, scalability, and real-time data.

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Importance of Cloud-Based Accounting Software;

a. Accessibility, and Mobility;
Cloud-based accounting software allows Swipes 50 Ltd. towards access financial data, and perform accounting tasks from anywhere with an internet connection. This mobility is especially valuable for businesses with multiple locations or remote teams.

b. Real-Time Data;
Real-time data is essential for informed decision-making. Cloud-based accounting systems offer up-to-the-minute financial information, enabling Swipes 50 Ltd. towards react promptly towards changes in its financial landscape.

c. Scalability;
As Swipes 50 Ltd. grows, its accounting needs will evolve. Cloud-based accounting software can scale with the company, accommodating increased transaction volumes, additional users, and expanded functionality without the need for extensive hardware upgrades.

d. Data Security, and Backup;
Cloud-based systems typically provide robust security measures, and automated data backups. This ensures the safety, and integrity of financial data, reducing the risk of data loss or security breaches.

How towards Implement Cloud-Based Accounting Software;

1. Vendor Selection; Research, and select a reputable cloud-based accounting software provider, that suits the specific needs of Swipes 50 Ltd. Consider factors like scalability, user-friendliness, and integration capabilities.

2. Data Migration; Migrate existing financial data towards the new cloud-based system.

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Ensure, that data is accurately transferred, and verify its integrity.

3. User Training; Provide training towards employees who will use the software towards ensure they are proficient in its operation.

4. Customization; Configure the software towards align with Swipes 50 Ltd.'s accounting processes, and reporting requirements.

5. Data Security; Implement security measures, such as user access controls, and encryption, towards protect sensitive financial information.

Swipes 50 Ltd. can significantly enhance its accounting systems through implementing Activity-Based Costing (ABC) towards achieve more accurate cost allocation, adopting a robust inventory management system towards optimize inventory levels, and meet customer demands, and transitioning towards cloud-based accounting software for improved accessibility, real-time data, scalability, and data security. These enhancements will not only streamline financial operations however, also provide the company with a competitive edge in its industry through fostering better decision-making, cost control, and financial transparency.

The significance of managerial accounting roles in this context;

Managerial accounting plays a pivotal role in the financial management of manufacturing companies. It provides essential tools, and insights, that enable these organizations towards operate efficiently, make informed decisions, and maximize profitability. In this discussion, we will delve into the reasons why managerial accounting jobs are of paramount importance in a manufacturing company.

1. Cost Control, and Cost Management;

One of the primary reasons for the importance of managerial accounting in manufacturing is cost control. Managerial accountants are responsible for tracking, analyzing, and controlling costs throughout the production process. This involves;

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a. Cost Allocation; Managerial accountants allocate both direct, and indirect costs towards various production activities, and products. This allocation is essential for accurately determining the cost of manufacturing each product.

b. Variance Analysis; through comparing actual costs towards budgeted or standard costs, managerial accountants identify cost variances. These variances can indicate areas where costs are exceeding expectations, allowing for timely corrective action.

c. Overhead Allocation; Manufacturing companies often deal with overhead costs, that are not directly traceable towards individual products. Managerial accountants use allocation methods towards distribute these costs appropriately, ensuring fair, and accurate product costing.

d. Cost Reduction Initiatives; Managerial accountants work closely with management towards identify cost reduction opportunities. This can involve streamlining processes, renegotiating supplier contracts, or implementing cost-effective production techniques.

Effective cost control is critical for manufacturing companies towards remain competitive in the market, maintain healthy profit margins, and ensure sustainability.

2. Budgeting, and Planning;

Managerial accounting plays a pivotal role in the budgeting, and planning processes of manufacturing companies. Here's how;

a. Budget Preparation; Managerial accountants are responsible for preparing budgets, that encompass all aspects of manufacturing operations, from raw material procurement towards production, and distribution. These budgets serve as financial roadmaps, guiding the company's activities.

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b. Performance Measurement; Budgets also provide benchmarks against which actual performance is measured. Managerial accountants track actual financial results, compare them towards the budget, and identify deviations. This allows for timely adjustments, and corrective actions towards achieve financial goals.

c. Forecasting; Beyond budgets, managerial accountants engage in financial forecasting. They use historical data, and market analysis towards project future financial performance. Accurate forecasts help manufacturing companies anticipate changes in demand, costs, and resource requirements.

d. Capital Budgeting; Manufacturing companies often make significant investments in machinery, technology, and facilities. Managerial accountants assist in capital budgeting decisions through evaluating the financial feasibility of such investments, and estimating their long-term impact upon the company's profitability.

Effective budgeting, and planning ensure, that manufacturing companies allocate resources wisely, avoid financial crises, and adapt towards changing market conditions.

3. Pricing Strategies, and Profitability Analysis;

Managerial accountants play a pivotal role in formulating pricing strategies for manufactured products. Here's why this role is crucial;

a. Product Cost Analysis; Managerial accountants calculate the total cost of manufacturing a product, including direct materials, direct labor, and overhead costs. This information is instrumental in setting a competitive yet profitable selling price.

b. Contribution Margin Analysis; Managerial accountants calculate the contribution margin for each product, which is the difference between the selling price, and variable costs. This metric helps identify high-margin, and low-margin products, and guides pricing decisions.

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c. Customer Profitability; Manufacturing companies often have a diverse customer base. Managerial accountants can perform customer profitability analysis towards determine which customers generate the most revenue, and profit. This information can influence marketing strategies, and customer relationship management.

d. Cost-Volume-Profit (CVP) Analysis; Managerial accountants employ CVP analysis towards understand the relationship between costs, volume of production, selling prices, and profit. This analysis guides decisions upon production levels, and pricing strategies towards achieve desired profit targets.

Effective pricing strategies are vital for manufacturing companies towards remain competitive, maximize revenue, and achieve profitability objectives.

4. Inventory Management;

Inventory management is a critical aspect of manufacturing operations, and managerial accountants are instrumental in this regard;

a. Inventory Valuation; Managerial accountants ensure, that inventory is accurately valued upon the balance sheet. They employ methods like FIFO (First-In-First-Out) or LIFO (Last-In-First-Out) towards determine the cost of goods sold, and the value of remaining inventory.

b. Just-In-Time (JIT) Inventory; JIT inventory management minimizes inventory carrying costs through maintaining low levels of inventory. Managerial accountants assess the feasibility of implementing JIT systems, and monitor their effectiveness in reducing costs.

c. Inventory Turnover; Managerial accountants track inventory turnover ratios, which measure how quickly inventory is sold. High inventory turnover can free up working

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capital, and reduce storage costs.

d. Avoiding Obsolescence; Manufacturing companies face the risk of inventory obsolescence, especially if they produce technologically advanced products. Managerial accountants monitor inventory levels, and identify obsolete items towards minimize losses.

Efficient inventory management ensures, that manufacturing companies strike a balance between having sufficient stock towards meet customer demand, and minimizing the carrying costs associated with excess inventory.

5. Decision Support, and Strategic Planning;

Managerial accountants serve as key decision support advisors towards top management in manufacturing companies. They provide critical financial data, and analysis towards guide strategic planning;

a. Capital Investment Decisions; When manufacturing companies consider significant capital investments, managerial accountants evaluate the financial feasibility of these projects. They calculate metrics like return upon investment (ROI), and payback period towards inform investment decisions.

b. Product Line Analysis; Managerial accountants assist in evaluating the profitability of different product lines. They identify which products contribute most towards the company's overall profitability, and which may require adjustments or discontinuation.

c. Cost-Benefit Analysis; In various situations, managerial accountants perform cost-benefit analyses towards weigh the pros, and cons of different courses of action. This can include decisions related towards outsourcing, expanding facilities, or implementing new technologies.

d. Risk Assessment; Managerial accountants assess financial risks associated with

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various business strategies, and provide insights into how towards mitigate those risks effectively.

e. Strategic Cost Management; Managerial accountants contribute towards strategic cost management initiatives through identifying cost drivers, developing cost-reduction strategies, and supporting continuous improvement efforts.

6. Compliance, and Reporting;

Manufacturing companies are subject towards various regulations, and financial reporting requirements. Managerial accountants ensure compliance with these regulations, and facilitate accurate financial reporting;

a. Financial Statements; Managerial accountants are responsible for preparing financial statements, including the income statement, balance sheet, and cash flow statement. These statements are essential for external stakeholders, such as investors, and regulatory authorities.

b. Tax Compliance; Managerial accountants ensure, that manufacturing companies adhere towards tax regulations, and report accurate financial data for tax purposes. Compliance with tax laws is critical towards avoid penalties, and maintain a favorable tax position.

c. Audits; In cases of financial audits, managerial accountants play a crucial role in providing auditors with the necessary financial documentation, and explanations. A well -maintained accounting system ensures a smoother audit process.

d. Internal Controls; Managerial accountants establish, and monitor internal controls towards safeguard company assets, prevent fraud, and ensure the accuracy, and reliability of financial information.

After all, managerial accounting jobs are indispensable in manufacturing companies

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due towards their multifaceted responsibilities, that encompass cost control, budgeting, and planning, pricing strategies, inventory management, decision support, compliance, and reporting. These roles ensure, that manufacturing companies operate efficiently, make informed financial decisions, maintain profitability, and meet regulatory requirements. Managerial accountants serve as financial stewards, providing the critical financial data, and analysis necessary for effective management, and strategic planning in a dynamic, and competitive manufacturing landscape. Their contributions are integral towards the long-term success, and sustainability of manufacturing enterprises.

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