EUROPEAN INTERNATIONAL UNIVERSITY

COVER PAGE AND DECLARATION

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E-SIGNATURE: ______________________________________

DATE: ______________________________________

EIU Paris City Campus
Address: 59 Rue Lamarck, 75018 Paris, France | **Tel:** +33 144 857 317 | **Mobile/WhatsApp:** +33607591197 | **Email:** paris@eiu.ac

EIU Corporate Strategy & Operations Headquarter
Address: 12th Fl. Amarin Tower, 496-502 Ploenchit Rd., Bangkok 10330, Thailand | **Tel:** +66(2)256923 & +66(2)2569908 | **Mobile/WhatsApp:** +33607591197 | **Email:** info@eiu.ac

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The introduction

The management accounting procedures of a company are vital as they facilitate the collection, recording, analysis, and interpretation of internal accounting data. These procedures enable business managers to make timely decisions regarding the future development and growth of the organization. The purpose of this report is to provide readers with a comprehensive understanding of management accounting procedures, empowering them to assess the internal operations of the company and develop a long-term strategic business plan.

The report offers a detailed explanation of the various accounting techniques employed by the company to compile internal accounting information. One essential aspect of the responsibility accounting system, known as management accounting, provides managers and decision-makers with reports that focus on decision-making rather than solely adhering to reporting standards. It incorporates business concepts from other fields to meet the specific needs of management, ensuring a holistic and adaptable approach.

Management accounting encompasses a range of topics, including budgeting and forecasting, performance evaluation, financial analysis, product costing and pricing, assessing business options, governance, corporate finance, risk management, and strategic planning. These areas collectively contribute to the effective management and strategic decision-making within a company, enabling sustainable growth and success in the dynamic business landscape.

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Managerial Accounting Assignment Submission

A. Profit Statements of Swipe 50 Limited for February and March. :

i) Absorption Costing Profit Statements: February and March for Swipe 50 Limited

Profit Statement (using Absorption Costing)		
Swipe 50 Limited		
	February	
Sales (11,500 Units @ Euro 22ea)		**€ 253,000**
Less Cost of Goods (COG) Sold		
Beginning Inventory (0 Units)	€ 0	
Add COG Manufactured (12,500 Units)	€ 79,500	
COG Available for Sale (12,500 Units)	€ 79,500	
Less Closing Inventory (1,000 Units x Euro 6.36ea)	€ 6,360	€ 73,140
Gross Profit		**€ 179,860**
Less Selling & Administration Expenses		
Fixed Selling & Administrative Expenses	€ 36,225	
Variable Selling & Administrative Expenses	€ 8,275	€ 44,500
Net Profit for February (Using Absorption Costing)		**€ 135,360**

Profit Statement (using Absorption Costing)		
Swipe 50 Limited		
	March	
Sales (15,500 Units @ Euro 22ea)		**€ 341,000**
Less Cost of Goods (COG) Sold		
Beginning Inventory (1,000 Units)	€ 6,360	
Add COG Manufactured (14,500 Units)	€ 87,350	
COG Available for Sale (15,500 Units)	€ 93,710	
Less Closing Inventory (0 Units)	€ 0	€ 93,710
Gross Profit		**€ 247,290**
Less Selling & Administration Expenses		
Fixed Selling & Administrative Expenses	€ 48,825	
Variable Selling & Administrative Expenses	€ 8,275	€ 57,100
Net Profit for March (Using Absorption Costing)		**€ 190,190**

ii) **Profit Statements using Variable Costing for February and March**

Profit Statement (using Variable Costing)		
Swipe 50 Limited		
	February	
Sales (11,500 Units @ Euro 22ea)		€ 253,000
Less Variable Cost of Goods (COG) Sold		
Beginning Inventory (0 Units)	€ 0	
Add Variable COG Manufactured (12,500 Units)	€ 50,900	
Variable COG Available for Sale (12,500 Units)	€ 50,900	
Less Closing Inventory (1,000 Units x Euro 4.072ea)	€ 4,072	€ 46,828
Variable Manufacturing Margin		**€ 206,172**
Less Variable Selling & Administration Expenses		€ 36,225
Contribution Margin		**€ 169,947**
Less Fixed Expenses		
Fixed Selling & Administrative Expenses	€ 8,275	
Fixed Production Overheads	€ 28,600	€ 36,875
Net Profit for February (Using Variable Costing)		**€ 133,072**

Profit Statement (using Variable Costing)

B. Profit Reconciliation Statement calculated using Absorption Costing to that using Variable Costing

Reconciliation Statement		
Swipe 50 Limited		
	February	**March**
Net Income using Absorption Costing	**€ 135,360**	**€ 190,190**
Less Fixed Manufacturing Overheads carried forward (Closing Inventory)	€ 2,288	
Add Fixed Manufacturing Overheads brought forward (Beginning Inventory)		€ 2,288
Net Income using Variable Costing	**€ 133,072**	**€ 192,478**

B. Comparison of Profit Reconciliation Statement between Absorption Costing and Variable Costing calculations.

To fully understand the distinctions between variable costing and absorption costing, it is important to have a grasp of managerial accounting. Managerial accounting, also known as cost accounting or management accounting, is a powerful tool used to analyze and control costs within a company, providing internal reports that support managerial decision-making and help achieve organizational objectives.

Internal reports in managerial accounting are specifically meant for internal managers and decision-makers within the company. However, these reports can also be shared outside the company if needed. Effective management accounting enables managers to make informed decisions that are not only right but also financially and economically sound. It is a valuable instrument for both short-term and long-term planning and forecasting, as well as budgeting in business.

In the context of managerial accounting, the two primary costing methodologies are variable costing and absorption costing, each with its own benefits and limitations. It is important to note that most businesses, if not all, follow Generally Accepted Accounting Principles (GAAP), which require external financial statement reporting to be prepared using absorption costing. However, for internal financial statement reports, businesses have the freedom to choose between absorption costing and variable costing.

Fixed overhead costs play a crucial role in understanding the differences between variable costing and absorption costing. Fixed overhead costs are expenses that do not vary with production capacity and include items such as rent, insurance, salaries, and equipment leasing fees.

Absorption costing, as the name suggests, fully absorbs a portion of the total fixed overhead costs into the cost of production. It establishes a cost base for each unit and simplifies the allocation of total expenses based on the quantity of units manufactured and sold during the reporting period.

Absorption costing includes all direct materials, direct labor, and variable expenses, as well as the portion of fixed overhead costs allocated to each unit produced. This method aligns with GAAP and is crucial for external financial statement reporting, where the cost of goods sold includes fixed and variable costs. Proper utilization of absorption costing is important for businesses to implement appropriate pricing strategies and cost management policies.

Variable costing, on the other hand, treats fixed overhead costs as a one-time expense rather than allocating them on a per-unit basis. It focuses primarily on variable production costs, such as raw

materials, packaging, and shipping. Under variable costing, fixed overhead costs are reported as a separate line item on the balance sheet, rather than being included in the cost per unit. This approach allows businesses to identify the major expenses directly associated with creating a product or service. Variable costing enhances income statements by utilizing the concept of contribution margin, which provides valuable data for cost-volume-profit (CVP) analysis. However, variable costing does not comply with GAAP for external financial reporting, as it does not allocate fixed manufacturing expenses. Therefore, it is primarily used as a decision-making tool to enhance operational efficiency and support internal management decisions.

It's important to consider the specific needs and circumstances of a business when choosing between variable costing and absorption costing. The nature of the business, the diversity of product lines, and the desired level of cost analysis and reporting accuracy all play a role in determining the appropriate costing method to be used. Both variable costing and absorption costing have their advantages and disadvantages, and businesses must evaluate these factors to make an informed decision.

Variable costing provides valuable insights into the cost behavior of a business. By separating fixed and variable costs, it allows managers to understand how changes in production volume impact costs and profitability. This information is particularly useful for decision-making related to pricing, product mix, and cost control measures. Variable costing also provides a clear picture of the contribution margin, which helps in calculating the breakeven point and making informed decisions about production levels.

However, variable costing has some limitations. Since fixed overhead costs are not allocated to individual units, it can result in a skewed perspective of the cost per unit. This can make it challenging to accurately determine the full cost of producing a specific product or service. Moreover, variable costing is not in compliance with GAAP, which can limit its use for external financial reporting purposes.

Absorption costing, on the other hand, offers a comprehensive view of the cost per unit by including all production-related costs, both fixed and variable. It aligns with GAAP requirements and is essential for external reporting, providing a more accurate representation of the overall cost structure of a business. Absorption costing also ensures that all costs are matched with the revenue generated during a specific accounting period, adhering to the matching principle.

However, absorption costing has its drawbacks as well. It can lead to inflated profits during periods of low production or when a significant portion of the manufactured goods remain unsold. This is

because fixed overhead costs are spread over a smaller number of units, resulting in a higher cost per unit and potentially overstating profits. Additionally, absorption costing may not provide a clear understanding of how costs behave with changes in production volume, making it less suitable for certain decision-making scenarios.

In summary, while absorption costing is the standard for external financial reporting and provides a comprehensive view of costs, variable costing offers valuable insights for internal decision-making and cost analysis. Businesses need to carefully consider their reporting requirements, the nature of their operations, and the specific decision-making needs to determine which costing method is most appropriate. It's worth noting that some businesses may even choose to use both methods in different contexts to gain a more comprehensive understanding of costs and profitability.

Furthermore, it is important to note that the choice between variable costing and absorption costing can also be influenced by external factors, such as industry norms and regulations. Certain industries may have specific requirements or standards that favor the use of one method over the other.

For example, industries with high levels of inventory or long production cycles, such as manufacturing or construction, often lean towards absorption costing. This is because absorption costing recognizes fixed overhead costs as part of the cost of inventory, allowing for a more accurate valuation of unsold goods and work in progress. It also aligns with the matching principle by matching costs with revenues when the products are eventually sold.

On the other hand, industries with more volatile production volumes or shorter production cycles, such as software development or consulting services, may find variable costing more suitable. Variable costing provides a clearer understanding of the cost behavior and allows for better cost control and decision-making in dynamic environments.

Ultimately, the choice between variable costing and absorption costing depends on the specific needs and circumstances of a business. It is crucial for managers and accountants to carefully evaluate the pros and cons of each method and consider factors such as reporting requirements, cost analysis needs, industry norms, and the nature of their business operations. By selecting the most appropriate costing method, businesses can enhance their financial decision-making, improve cost management, and achieve better overall performance.

C. Explaining the distinctions between each method and highlighting the significance of each approach

1. Enhance Cost Classification: Swipes 50 Limited can improve its managerial accounting system by enhancing cost classification. This involves categorizing costs into different types such as direct costs, indirect costs, variable costs, and fixed costs. By having a clear understanding of cost behavior and different cost components, management can make more informed decisions regarding pricing, product profitability, and cost control.
2. Implement Activity-Based Costing (ABC): ABC is a costing method that assigns costs to specific activities rather than traditional cost centers. Swipes 50 Limited can implement ABC to accurately allocate costs to activities that drive those costs. This can provide a more accurate picture of the true cost of products and services and help identify areas where costs can be reduced or eliminated.
3. Utilize Key Performance Indicators (KPIs): KPIs are quantifiable metrics that measure the performance of specific aspects of a business. By identifying relevant KPIs for Swipes 50 Limited, such as sales growth rate, customer acquisition cost, or inventory turnover, management can track performance, identify areas for improvement, and make data-driven decisions to achieve strategic objectives.
4. Implement Cost-Volume-Profit (CVP) Analysis: CVP analysis helps management understand the relationship between costs, volume, and profitability. By conducting CVP analysis, Swipes 50 Limited can determine the breakeven point, evaluate the impact of changes in sales volume or pricing, and assess the profitability of different products or services. This information can guide pricing decisions, production planning, and resource allocation.
5. Enhance Budgeting and Forecasting: Swipes 50 Limited can improve its managerial accounting system by implementing more robust budgeting and forecasting processes. This involves setting realistic financial targets, regularly monitoring performance against the budget, and adjusting forecasts based on changing market conditions. Accurate budgeting and forecasting enable proactive decision-making and help management identify potential risks and opportunities.

By implementing these steps, Swipes 50 Limited can enhance its managerial accounting system and provide management with more accurate and relevant information for decision-making. This will ultimately contribute to the company's success and profitability by ensuring efficient resource allocation, cost control, and strategic planning

1. **Budget Reporting –comparing Actual vs. Forecasted Results**

The Managerial Accounting System is an ongoing process that requires continuous monitoring and evaluation. It is not a one-time event but rather a dynamic system that aids in effective decision-making. Anticipating future events, budgeting, and planning ahead are critical aspects of managerial accounting. By forecasting and budgeting, organizations can set targets, allocate resources efficiently, and plan for contingencies.

The control process is a fundamental element of managerial accounting. It involves comparing actual results to budgeted or expected outcomes and analyzing the variations. This analysis helps identify areas of improvement, address discrepancies, and make necessary adjustments to achieve desired goals. The control process ensures that the organization stays on track and takes corrective actions when deviations occur.

Budgeting plays a crucial role in managerial accounting by providing a framework for financial planning. It helps allocate costs to activities and ensures that resources are utilized effectively to support the organization's strategic objectives. Budgeting also facilitates the creation of key performance indicators (KPIs) that measure the performance of specific tasks, managers, and divisions. KPIs provide valuable insights into the organization's progress and help monitor performance against targets.

During the budgeting process, each department has the opportunity to contribute and provide input. Clear guidelines and responsibilities should be established to ensure that everyone understands their roles in achieving budgetary goals. Effective budgeting leads to better financial management, improved decision-making, and enhanced operational efficiency.

By comparing actual performance to budgeted figures, organizations can evaluate their financial performance and identify areas for improvement. This evaluation helps management make informed decisions, identify potential issues, and take proactive measures to enhance the company's overall performance and profitability.

In conclusion, the Managerial Accounting System is an ongoing and iterative process that involves anticipating, budgeting, planning, and controlling. It provides valuable insights for decision-making and helps organizations achieve their goals. Effective budgeting and evaluation of performance against expectations are vital components of managerial accounting, contributing to the success and profitability of the company.

2. The use of more Managerial Accounting techniques

Alongside variable and absorption costing, there are several other management accounting techniques that can support the coordination of administrative execution with the financial performance of a company or business. These techniques provide valuable insights into cost analysis, profitability, and cash flow management. Swipes 50 Limited can utilize these techniques to assess different aspects of their cost structure and integrate the resulting data with their financial performance.

One such technique is cost-volume-profit (CVP) analysis. This analysis helps determine the relationship between sales volume, costs, and profits. By considering factors such as selling price, variable costs, fixed costs, and sales volume, CVP analysis can provide valuable information on the break-even point, which is the sales level at which the company neither earns a profit nor incurs a loss. This analysis can also help in decision-making by assessing the impact of changes in volume, costs, or prices on the company's profitability.

Basic cost analysis is another technique used in management accounting. It involves examining the components of a product or service and determining the cost of each element. By understanding the basic costs involved in the production or delivery process, Swipes 50 Limited can identify areas of cost reduction or improvement.

Marginal costing focuses on the analysis of variable costs and contribution margin. It helps in evaluating the profitability of different products or services and supports decision-making related to pricing, product mix, and resource allocation. By analyzing the contribution margin, which is the difference between sales revenue and variable costs, Swipes 50 Limited can assess the profitability of individual products or services and make informed decisions about their offerings.

Cash flow management is a crucial aspect of financial management, and it is also an important technique in management accounting. By effectively managing cash flows, Swipes 50 Limited can ensure that there is sufficient cash available to meet its financial obligations, invest in growth opportunities, and navigate through potential cash flow challenges. Cash flow management techniques involve forecasting cash inflows and outflows, monitoring working capital, optimizing cash conversion cycles, and implementing strategies to improve liquidity.

In conclusion, management accounting encompasses various techniques beyond variable and absorption costing. Cost-volume-profit analysis, basic cost analysis, marginal costing, and cash flow management are additional techniques that can provide valuable insights into cost details, profitability, and financial performance. By utilizing these techniques, Swipes 50 Limited can make informed decisions, improve cost efficiency, and achieve their desired financial objectives.

3. Introduction of activity-based costing:

Based on the provided details about Swipes 50 Limited, it is evident that the company sells a single product, which implies that all overhead costs should directly relate to the production of that specific item. However, it is possible that there are overhead costs that are not relevant or occurring without any specific reason. To address this, implementing an activity-based costing system can help break down the costs for each department, including only the overhead costs that are pertinent to the product. This approach enables the identification of value-added and non-value-added expenses within the overall overhead costs.

Furthermore, utilizing activity-based costing allows for the calculation of the precise profitability of each individual product manufactured by Swipes 50 Limited. By identifying and minimizing non-value-added activities, the overall profitability of the company can be enhanced. In contrast to absorption costing, which allocates the entire production overhead to the total manufacturing costs of all products, activity-based costing provides a more accurate and reliable method of cost allocation. It helps determine the actual usage of resources by products, revealing that some products may have consumed a smaller portion of the overhead expenses compared to others.

Implementing an activity-based costing system can efficiently address this issue, providing a quick and accurate resolution. Activity-based costing is becoming increasingly popular compared to absorption costing as it assigns overhead costs based on the specific products being produced

D. Three potential enhancements for the accounting systems of Swipes 50 Limited

Company

The role of a management accountant is of utmost importance as it encompasses various aspects of

an organization. The responsibilities of a management accountant include gathering, documenting, and presenting financial information from different business divisions within the organization. They are also involved in analyzing financial plans and projections, ensuring their realization, and providing financing recommendations. This involves estimating costs related to labor, raw materials, production, sales, marketing, advertising, and internal operational expenses.

In order to conduct a comprehensive assessment of the organization's working capital and funding availability, the management accountant collaborates with all relevant business divisions. They provide this information to senior management and the Board of Managers, becoming the primary source of information on which managers and CEOs rely to make informed decisions. The management accountant tracks expenses associated with all company activities and utilizes this data to support decision-making related to operations, investments, and production.

Due to their critical role, even a single mistake made by a management accountant can put the company at risk. They enforce internal costing procedures and adhere to recognized accounting standards to ensure ongoing compliance. Timeliness is crucial in their role, as they must establish strategies, raise funds, and provide reports within specified timeframes, taking into account market uncertainties and available working capital. Accuracy is essential as funds need to be allocated appropriately and considering market risks. The management accountant must have comprehensive knowledge, including political circumstances, market factors, competition, labor costs, raw material costs, coordination among different departments, and interactions with other business sectors. This enables them to provide timely information for financial decision-making while considering available budgets.

In an industrialization organization, the function of the management accountant becomes even more crucial and complex, requiring expertise in handling the unique challenges associated with such enterprises.

Conclusion

According to the report, Swipes 50 Limited relies on various management accounting tools and technologies to gather the necessary accounting data for decision-making in its commercial operations. The company operates in a highly competitive manufacturing market where other businesses are adopting

advanced sustainability and growth technologies. Swipes 50 Limited utilizes both margin and absorption costing to establish a cost-effective framework for its products. Comparing the gross profit to the absorption cost, it is evident that the company benefits from absorption expenses.

The management accountant can leverage the data from different accounts to support the company's strategic objectives and plans for growth and development. The effectiveness of directing and overseeing management towards profitability heavily relies on the expertise of management accountants. The accounting framework utilized by the company mandates the establishment of financial accounts to evaluate the financial plans and performance of the organization. These financial accounts play a crucial role in assessing the company's financial health and aiding in future planning.

In addition to using margin and absorption costing, Swipes 50 Limited can also employ other management accounting techniques to further enhance its decision-making processes. Techniques such as activity-based costing, cost-volume-profit analysis, and budgeting can provide valuable insights into cost allocation, break-even points, and financial planning. By implementing activity-based costing, the company can accurately allocate overhead costs to specific products or activities, enabling better cost control and optimization. Cost-volume-profit analysis can help Swipes 50 Limited determine the relationship between sales volume, costs, and profits, assisting in strategic pricing decisions. Additionally, effective budgeting practices can ensure proper allocation of resources and facilitate goal-setting and performance evaluation. Utilizing these management accounting techniques in combination can enable Swipes 50 Limited to make informed decisions, improve profitability, and stay competitive in the dynamic manufacturing market.

Furthermore, management accounting provides Swipes 50 Limited with the means to analyze and evaluate its financial performance through various financial ratios and indicators. These include return on investment (ROI), gross margin ratio, operating profit margin, and inventory turnover, among others. By regularly monitoring and interpreting these financial metrics, management can assess the company's profitability, efficiency, and liquidity. This information is crucial for identifying areas of improvement, making informed strategic decisions, and maximizing shareholder value. Additionally, management accounting can aid in cost control by identifying cost drivers and implementing cost reduction strategies. By continuously reviewing and analyzing financial data, Swipes 50 Limited can streamline operations, optimize resource allocation, and achieve sustainable growth in the competitive manufacturing industry

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