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COVER PAGE AND DECLARATION

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Student's Full Name:	Ahmed Maher Moustafa Elmaghrabi
Student ID:	EIU2021182
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E-SIGNATURE: Ahme Maher Moustafa Elmaghrabi

DATE: 10 Feb. 2025

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

Table of Contents		
NO.	TOPIC	Page
1	Contents	2
2	Introduction	3
3	I. Profit statement for Swipe50 Limited for the month Feb & March a) Absorption costing b) Variable costing	4
4	Reconcile the profit using absorption costing and variable costing	8
5	Importance of the absorption method and Variable method in decision making and their effect on reading the financial status of company	9
6	Swipes 50 Ltd. can improve its accounting systems	11
7	The importance of accounting managerial on long term will be Success	15
8	conclusion	17
9	References	19

- **Introduction:**

The company's financial reports, which are created by the financial manager and distributed to stakeholders along with an analysis of the company's overall state, provide the decision makers in any organization with the information they need to make decisions about whether to increase or decrease investments. Both absorption costing and variable costing techniques should be taken into account while making judgments. In contrast to absorption costing, which takes into account all absorbed costs and deducts all fixed and variable production costs before deducting all fixed and variable selling expenses, variable costing includes all variable production costs only in the product cost.

Absorption costing comprises all costs related to a production process that are allocated to the units produced, while variable costing is an accounting method for production expenses where only variable costs are included in the product cost.

- **Swipe 50 profit statement for February & March months:**

In their accounting systems, organizations have to choose between fixed costing and variable costing. Fixed costing accounts for all manufacturing or era costs, including labor costs, rent, insurance, and raw materials. Additionally, variable esteem incorporates all variable arrange charges into the cost of goods offered (COGS) while keeping a strategic distance from organized, fixed overhead prices. Swipe 50 was used to determine those methods in February and March since contribution costing is mandated by widely accepted accounting principles (GAAP) for external announcements.

Our situation is:

	February	March
Production (units)	12,500	14,500
Sales (units)	11,500	15,500
Direct Materials	29,000	33,250
Direct Labor	19,000	22,000
Variable Production overhead	7,300	8,500
Total Selling & administrative Expenses	44,500	57,100

-A monthly production capacity of 20,000 units.

-The monthly fixed manufacturing overhead is €28,600.

Plus Swipes are sold by -50 for €22 each. -As of January 31, there are no Plus Swipes in stock at the company's warehouse.

-The overall cost of administration includes both fixed and variable components (the variable fraction is determined by the number of units sold).

-We must compile a few components that we will utilize to generate the profit statements in order to create Swipe50 Limited's earnings statements for the months of February and March utilizing absorption costing and variable costing.

	February	March
Sales Revenue	$=11,500 * 22 = 253,000 \text{ €}$	$15,500 * 22 = 341,000 \text{ €}$
Beginning inventory (units)	0	1,000
Production (units)	12,500	14,500
Sales (units)	11,500	15,500
Ending Inventory (units)	1,000	0
Direct Materials	€ 29,000	€ 33,250
Direct Labour	€ 19,000	€ 22,000
Variable Production Overhead	€ 7,300	€ 8,500
Total Variable Manufacturing cost	$29,000 + 19,000 + 7,300 = 55,300 \text{ €}$	$33,250 + 22,000 + 8,500 = 63,750 \text{ €}$
Variable Manufacturing cost per unit	$=55,300 / 12,500 = 4.424 \text{ €}$	$=63,750 / 14,500 = 4.39655 \text{ €}$
Fixed Manufacture cost per unit	$28,600 / 20,000 \text{ units} = 1.43\text{€}$	$28,600 / 20,000 \text{ units} = 1.43\text{€}$
Total Manufacturing cost (variable +fixed) per unit	$4.424 + 1.43 = 5.854\text{€}$	$4.396 + 1.43 = 5.82655\text{€}$
Beginning Inv. Cost	0	$1000 * 5.845 = 5,854$
Ending Inventory Cost €	$1000 * 5.854 = 5,854 \text{ €}$	0
Production Cost	$12,500 * 5.854 = 73,175\text{€}$	$14,500 * 5.82655 = 84,484.975\text{€}$
C. O. G. S	$=\text{Beg Inv.} + \text{Production} - \text{End Inv.} = 0 + 73,175 - 5,854 = 67,321\text{€}$	$=\text{Beg Inv.} + \text{Production} - \text{End Inv.} = 5,854 + 84,485 - 0 = 90,311.5\text{€}$
Production Volume Variance	$(20,000 - 12,500) * 1.43 = 10,725 \text{ €}$	$(20,000 - 14,500) * 1.43 = 7,865\text{€}$
Total Selling and Administrative Expenses (sold units)	€ 44,500	€ 57,100
Change in Sales & Administrative between March & Feb	$57,100 - 44,500 = 12,600\text{€}$	
Change in Sales units between March & Feb	$15,500 - 11,500 = 4,000 \text{ unit}$	
Variable Sales & Administrative expenses Per Unit	$12,600 / 4000 = 3.15\text{€}$	
Total Variable Sales & Administrative expenses	$11,500 * 3.15 = 36,225\text{€}$	$15,500 * 3.15 = 48,825\text{€}$
Total Fixed Sales & Administrative expenses	$44,500 - 36,225 = 8,275 \text{ €}$	$57,100 - 48,825 = 8,275\text{€}$

- Profit statement for Swipe 50 for February with both Absorption and Variable method:
- February in €:
- Profit statement – Feb. (Absorption):

Sales	(11,500 units * 22€)		253,000 €
(-) Cogs:			
Beg. Inv.	0	0	
+ Production	(12,500 units * 5.85 €)	73,175 €	
- End. Inv.	(1000* unit * 5.85€)	(5,854 €)	
Cogs [unadjusted]		67,321€	
+Production Volume Variance		10,725€	
Adjusted Cogs			78,046€
Gross margin sales – adjust COGS)			174,954
(-) Operating cost: - variable S & A (11,500 * 3.15)		(36,225€)	
- Fixed S& A Expense (44,500 – 36,225)		(8,275 €)	
Operating income			130,454€

- Ending inventory units= Beginning inventory + Produced units – Sold
= 0 + 12,500 -11,500 = 1,000 units.

- Profit statement – Feb. (Variable):

	February	
Sales	11,500*22=	253,000 €
(-) cost of goods sold (Variable)		
Beginning Inv.	0	
+ Productio(4.424 € * 12,500)	55,300 €	
– End Inv. (1000 * 4.424)	(4,424 €)	
Cogs		202,124 €
(-) variable S & A	11,500 * 3.15	(36,225 €)
Contribution margin		165,899 €
(-) Fixed Manu fact.		(28,600€)
(-) fixed Sales & Administrative		(8,275 €)
Operating income		129,024

- **March in €:**
- **Profit statement – March (Absorption):**

Sales	(15,500 units * 22 €)		341,000 €
(-) Cogs:			
Beg. Inv.	(1,000 units * 5.854 €)	5,854€	
+ Production	(14,500 units * 5.854 €)	84,485€	
- End. Inv.	(0)	0	
Cogs [unadjusted]		90,339 €	
+Production Volume Variance		7,865€	
Adjusted Cogs			98,204 €
Gross margin sales – adjust COGS)			242,796 €
(-) Operating cost: - variable S & A (15,500 * 3.15)		(48,825€)	
- Fixed S& A Expense (44,500 – 36,225)		(8,275 €)	
Operating income			185,696 €

- Ending inventory units= Beg + Produced – Sold = **1000 + 14,500 -15,500 = 0 units.**

- **Profit statement – March (Variable):**

	March	
Sales	15,500 *22=	341,000 €
(-) cost of goods sold (Variable)		
Beginning Inv. (Ending of Feb.)	4,424 €	
+ Productio(4.424 € * 12,500)	63,750 €	
– End Inv. (1000 * 4.424)	(0)	
Cogs		272,826 €
(-) variable S & A	15,500 * 3.15	(48,825 €)
Contribution margin		224,001 €
(-) Fixed Manu fact.		(28,600€)
(-) fixed Sales & Administrative		(8,275 €)
Operating income		187,126 €

- Reconcile the profit using absorption costing and variable costing:

The two approaches are initially appropriate for the business. The variable costing approach is the best and most effective methodology for Swipes 50 Compelled as, when comparing the over-measured working advantage or benefits, the variable costing advantage is greater than the absorption costings advantage. We computed all costs using the absorption costing system. This generates higher compensation than what variable costing anticipates. All of the manufacturing costs are combined under absorption costing, whereas variable costing evidently introduced in the era by combining the variable costs but not any of the fixed costs.

The Cash-related Accounting Measures Board's For the Most Part Recognized Accounting Guidelines (GAAP) mandate absorption costing. The fixed component of manufacturing costs allocated to inventory under each causes the difference in income.

- Feb:

[Operating income under absorption. – op. income under variable]

= [fixed manuf. Cost of end. Inventory under absorption. – F. Manuf. Of beg. Inv. Under absorption.]

$$130,454 - 129,024 = \left[\frac{28,600}{20,000} \times 1000 - 0 \right]$$

$$1,430 = 1,430$$

- March:

[Operating income under absorption. – op. income under variable]

= [fixed manuf. Cost of end. Inventory under absorption. – F. Manuf. Of beg. Inv. Under absorption.]

$$185,696 - 187,126 = \left[\frac{28,600}{20,000} \times 0 - \frac{28,600}{20,000} \times 1000 \right]$$

$$(1,430) = (1,430)$$

- **Importance of the absorption method and Variable method in decision making and their effect on reading the financial status of company:**

= **Absorption costing method** is intended to be used in long-term financial statements, such as income statements, to show the company's current financial status, identify its profit income, and provide indicators to investors and outside auditors. For this reason, we advise using absorption costs in long-term financial statements, such as one year, while variable costs are intended to be used in short-term financial statements to help managers and stakeholders make the best decisions, particularly when there is a special offer for manufacturing or something similar.

All production-related expenses, such as direct labor, direct materials, and fixed and variable manufacturing overhead, are considered product costs. Prior to being moved to the cost of goods sold on the income statement as an expense, these charges are combined to inventories as an asset on the balance sheet. Because all production overhead expenses, both variable and fixed, are absorbed into inventory until the products are sold, this accounting technique is known as absorption costing. Absorption costing is sometimes referred to as complete costing. The absorption costs are included in the closing stock valuation and are incurred for preparation purposes. With the aid of the overhead assimilation rate, the overhead expenses are transferred to the investment unit. Absorption costing is a complete costing method that determines a cost per unit by allocating established overhead costs across all units produced throughout the time. Utilizing absorption costs, the net profit is determined. For internal reporting, managers frequently favor variable costing, an alternate costing technique, even when absorption costing is utilized for external reporting.

= **Variable costing method** is intended to be used temporarily to assist managers in selecting the best choice regarding a unique offer; it is crucial to the decision-making process. More efficient cost-volume-profit analysis results from variable costing, which gives managers the information they need to create a contribution margin income statement. Managers can calculate contribution margin ratios, break-even and target profit points, and conduct sensitivity analysis by isolating variable and fixed costs. However, absorption costing is less helpful for internal decision-making even though it satisfies U.S. GAAP requirements.

Employing variable costing internally also has the benefit of preventing managers from raising output purely to boost profits. Because operating costs are not invested in unsold goods or stock, profit is not overstated in variable costs. Variable costs account for incorrect and complex articulations.

Overabsorption of overheads is not a problem with variable costs. Contribution, or the difference between sales and variable cost of sales, is calculated via variable costing. Since profit is determined by sales using the variable cost method, it is much simpler to forecast.

- Swipes 50 Ltd. can improve its accounting systems by:
 - **The accounting system of Swipes 50 Ltd. will be extended.** All work is done in a respectable way if the board regularly oversees or audits the business's bookkeeping. If accounting procedures are not adequately controlled and evaluated, they may become ineffective and pointless. To avoid irregularities and efficiently document financial transactions, Swipes 50 should conduct routine reviews of their accounting system. Periodic analysis is necessary to increase the accounting process's efficiency and provide fast, precise access to data or information. Through internal and external assessments, the accounting system prevents or eliminates mistakes and waste. extending the accounting system of Swipes 50 Ltd. by gathering data or information that can be used in upcoming decision-making processes. Making an investment recently, creating a budget, and doing an overview. Your company's requirements must be met by your accounting structure. These include pricing, information security, and reports, but there are a few things to think about. It goes without saying that mechanization also effectively reduces the likelihood of mistakes because human nature is such that mistakes do occur occasionally. Cloud accounting is one of the most prominent contemporary advancements in accounting. Cloud accounting enables businesses to save lost time and improve the usability and efficiency of their trade forms. Records can be stored by the business using a cloud accounting platform. Swipes 50 Ltd.'s corporate budgeting announcements and other crucial information are made possible by the Cloud accounting setup. Additionally, the cloud provides us with capacity servers in two or three locations, from which you can readily access information in numerous locations. Additionally, Swipe 50 should set up a clear accounting chart to assist management and stakeholders in making decisions and in quickly analyzing the financial status. By exporting a report from their accounting system, they may view the key points, make the appropriate choice, and apply the appropriate technique in the new accounting system, which simplifies and improves the accuracy of this procedure.

- **The company should use ERP system Enterprise Resource planning System**, This ensures that data is accurate and traceable by transferring data quickly and automatically. An ERP system can be used to assess capital requirements, handle cash, and calculate expenses for a variety of activities, including labor, raw materials, and transportation.

- **Tracking capabilities** Swipes 50 Ltd will have the chance to use it as a financial management system if they have a competent ERP system. It will enhance their financial operations, such as client payment plans, tracking revenue and managing credit. With its high level of monitoring capabilities and automated system, it's easy to manage billing, revenue, and payments. Better yet, you can use an ERP system to track the organization's profitability, invoicing, cost analysis, and budgeting, all of which will have a good impact on the following.

- **Quality data and financial information**

- ERP technology is available to Swipes 50 Ltd, and the accounting management can easily access the data. Because their resources and procedures are well-organized, organizations are able to maintain sound financial practices. Additionally, financial data is protected, and when you have the right to access it, you can manage and change it. The Swipes 50 organization must manually manage the data and use different platforms for sales and accounting operations. They will discover that data is transferred automatically through an integrated ERP system for accounting. Data management becomes faster, more accurate, and more consistent as a result of eliminating the need for manual data management.

- With automated data, Swipes 50 Ltd can expand their business by concentrating on their day-to-day operations. An ERP system guarantees automated accounting. It addresses cash flow issues and

cash management while streamlining accounts payable and receivable operations. Generating and compiling data makes managing the entire organization easier.

- As previously stated, human error is always possible when working with data by hand. Your accounting may suffer as a result of losing attention and making mistakes with critical entries. The accuracy of financial reports and analysis will be impacted by inaccurate accounting data. This error may result in tax problems and other negative issues on your reports. Because an ERP system is automated, it avoids these kinds of mistakes and provides you with accurate information about Swipes 50 Ltd's financial status. The company can use financial management modules to monitor accounting data that adheres to international standards, and it will assist Swipes 50 Ltd in gathering financial data from multiple departments in order to generate reports and financial statements.

▪ **The importance of accounting managerial on long term will be Success with:**

Accounting managerial helps us in several daily issues in company management such as:

- 1- Product Costing and Valuation
- 2- Cash Flow Analysis
- 3- Inventory Turnover Analysis
- 4- Constraints Analysis
- 5- Financial Leverage Metrics
- 6- Accounts Receivable (AR) Management
- 7- Budgeting, Trend Analysis, and Forecasting
- 8- Pricing
- 9- Unregulated reporting

Therefore, if a company want to maintain its competitiveness and reap the rewards of both short-term and long-term revenue, it is crucial to have a management accounting department within the company. Standard financial statements are unable to provide a business with the information it requires in the timeframe required to make prompt judgments regarding every facet of an enterprise. The type and content of customized reports that can be created by a management accounting department are not restricted. This flexibility to have as much data as required at the right time is a tool that goes beyond financial accounting's role. The goal of item costing is to determine the total expenses associated with producing a good or service. Among the subcategories of costs are roundabout, variable, settled, and coordinate costs. Administrative accountants use cash flow analysis to determine the financial impact of business decisions. When conducting a cash stream analysis, an administrative accountant will take into account the money flow generated as a result of a specific business decision. Also, Stock turnover can be a

calculation of how several times, a company's stock has been sold and replaced in each time.

Businesses can make better decisions about acquiring new stock options by using stock turnover calculations. Administrative accountants assist in identifying bottlenecks and determining how these requirements affect revenue, benefits, and cash flow. We shall discover that the pricing of goods and services is influenced by both production and marketing managers. Their objective is to satisfy consumer needs both now and in the future. Production managers keep an eye on labor and material costs to ensure they stay within profitable ranges. The goal of management accounting is to accomplish that by giving them access to internal information that inform the choices made by the production and marketing divisions. Management accounting reports are useful tools for decision makers because they provide information about anticipated material costs and future demands. It's critical to understand how to make decisions and make a Planning is the process of establishing goals and determining how to achieve them. Control: Putting plans into action and assessing goal attainment via feedback.

The point at which marginal income and marginal cost are equal is the optimal point of production that the producer must select. The producer will boost profitability at that stage of production. Information derived from management accounting is utilized privately for business operations and should be kept private.

The presentation of income and expenses in internal documents also does not comply with the Financial Accounting Standards Board's guidelines. In the absence of laws and restrictions, managers can concentrate on information that will provide them with precise data covering a broader range of topics than those shown on income statements and balance sheets.

- **Conclusion:**

Finally, I would want to say that this course has taught me a lot of new information that has helped me think differently about business, particularly accounting, financial analysis, and how to work with numbers. Additionally, this will have an impact on sales revenue and aid in the success of the projects by reflecting on planning and the caliber of the decision-making process, which is based on research and analysis.

Generally speaking, the accounting managerial course provides a roadmap for moving forward with the appropriate tools. In the end, I understand the value of applying accounting and financial management in all aspects of life and have learned to consider multiple perspectives because I can use the accounting managerial course to analyze the company's financial status and determine whether your financial situation is healthy. Additionally, I learned how to compile a large number of reports and statements so that you can make informed financial, investment, and management decisions based on the current circumstances, the cost, and the best approach for cost absorption or variable costs. as well as when. I learned how to understand the meaning of financial statements, which also include indicators and ratios; how to identify market risks and take precautions against them; and how to properly manage your business to identify your financial strengths and weaknesses as well as boost and improve profitability.

In investment analysis, now It is more appeared and can calculate all ratios which will help you to take the wright decision in investment and know why you take this decision based on what?

Additionally, is it possible for the business to improve based on data and analysis from the financial analysis to identify its strong and weak parts and understand why? Additionally, you should identify your company's sources and plan every move before proceeding. Although accounting is sometimes referred to as the language of business, it is a language of money and commerce with many nuances and restrictions. In contrast to other accounting categories, management accounting is unregulated, flexible, and discretionary.

These characteristics add a new perspective to how a business interprets and presents its financial data, but they do not lessen the significance of management accounting. Accounting systems, regardless of their level of complexity, are instruments used by management to increase the profitability of their company. Entrepreneurs and financial experts recognize the value of management accounting because it places greater attention on upcoming successes and difficulties. Additionally, I learned how to distinguish between variable costing and absorption costing. While variable costing might eliminate some of the fixed established costs, absorption costing combines all of the expenses associated with manufacturing an item. Absorption costing, also referred to as complete costing, generates a cost per unit by incorporating all overhead costs across all units produced throughout the period. This implies that the next breakeven cost for businesses will be generated per unit. Customers will also have to pay a higher retail price as a result. Additionally, it implies that businesses will show a reduced net benefit margin. Variable costing eliminates fixed overhead costs while combining all variable costs in COGS. Using COGS, variable costs will lead to a reduced breakeven price per unit. Determining the precise estimating for an item will become more challenging as a result. The net gain will be slightly greater thanks to variable costing.

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