COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialization:	Marketing & Sales Management
Affiliated Center:	CEO BUSSINESS SCHOOL
Module Code & Module Title:	MGT510-Managerial Accounting
Student's Full Name:	Mahmoud Rajab Mohammad Abualsha'ar
Student ID:	EIU2022804
Word Count:	3863
Date of Submission:	29-6-2025

I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.

E-SIGNATURE:

DATE: 29-6-2025

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

MGT510: Managerial Accounting

Module Assignment: Managerial Accounting Report

Table of Contents

Summary

Swipe 50 Limited operates in the highly specialized market of developing protective covers for laptop screens, and the increasing demand for solutions to preserve the quality and durability of laptop displays has prompted a market for creating them. The key product of Swipe 50 Limited is called the Plus Swipe, designed specifically to safeguard the laptop screen from scratches, scuffs, and other types of surface degradation from normal use. Swipe 50 Limited has attained considerable progress in the efficiency, and quality of its production processes since its first year of existence three years ago, which competitively positions it within the market, while also meeting customer expectations for reliable and durable products.

With the level of sophistication of production processes now ongoing, the management hierarchy has opted to contribute to the financial governance of the business with reference to measuring, monitoring, and controlling costs and revenues related to production processes. This aligns with Swipe 50 Limited's objective to achieve improved levels of profit and financial sustainability in an increasingly competitive market.

In line with a request made by the Chief Financial Officer, a comprehensive review of our costing of our products was conducted to determine how different accounting methods may influence the calculations of reported profits. The Chief Financial Officer particularly wanted to explore absorption costing vs variable costing, because these two accounting methodologies allocate costs to products in a different manner. Knowing how different accounting methods assign costs is essential to management's ability to price, make production quantities, and allocate resources with the most informed and strategic basis.

This report will then compare the two different costing methods in detail, supporting each method with profit statement of their own and at the end, draw a reconciliation of those results. The report will also discuss some strategic implications for each method, provide opportunities to enhance the company's accounting processes while also considering the importance of managerial accounting to aid decision support in a manufacturing concern. Armed with this analysis, Swipe 50 Limited will continue to find opportunities to enhance its position to continue its growth trajectory and develop a sustainable competitive advantage.

Introduction

Managerial accounting is an important factor in aligning and assisting an organization's strategy because it provides managers with information necessary to make sound decisions regarding important operations. One of the main functions of managerial accounting is costing, which is important for assigning value to inventories, and to determine how profitable a product and service is. Costing can be determined in various ways depending upon how costs associated to cost objects are assigned, the two most prominent costing methods in this area are full costing, which apply all production related costs to products; or variable (or partial) costing, which apply only costs that vary depending on the level of activity or effort in producing products.

Production of goods generally involves multiple and interrelated processes that consume resources while producing goods. The consumed resources can be both directly associated with the final product or consumed indirectly. The total production cost is determined by the cost of all the consumptions. The production cost serves as the value provided to enterprise for reports containing the ending inventories value (in statement of financial position) and provides the cost of goods sold value (in the income statement).

Although the definition and rationale of the principles for measuring inventory costs is simple, the application of the principles can become complicated because of the factors involved in accurately assigning costs.

Organizations tend to use either full costing (absorption costing) or partial costing systems to accurately track production costs. Full costing includes all manufacturing costs in the valuation of total inventory. Full costing means that every cost that is incurred in producing a product is included as part of the cost. In partial costing, only those costs that are directly associated with manufacturing are included as costs per unit of production. Selling and administrative costs are treated separately and are considered period expenses, rather than part of product cost.

Assignment model answers

1- **<u>Prepare a profit statement for Swipe 50 Limited for the month of February and March using.</u>**

The financial performance of Swipe 50 Limited is being compared for the months of February and March under two costing methods. The financials for the two months are prepared as income statements using both absorption costing which has both variable and fixed production costs included, and a variable costing approach which has only variable production costs included in COGS, with fixed overhead being treated as a period cost.

<u>February – Absorption Costing</u>

- **Sales Revenue**

  = Units Sold × Selling Price

  = 11,500 units × €22 = €253,000
- **Cost of Goods Sold (COGS)**
- **Variable Costs:**

  Direct Materials = €29,000

  Direct Labour = €19,000

  Variable Overhead = €7,300

  Total Variable = €55,300

  Fixed Production Overhead (fully absorbed) = €28,600

  Total COGS = €55,300 + €28,600 = €83,900
- **Gross Profit**

  = Sales – COGS

  = €253,000 – €83,900

  = €169,100
- **Net Profit**

  = Gross Profit – Selling & Admin Expenses

  = €169,100 – €44,500

  = €124,600

February – Variable Costing

- **Variable COGS (same as above) = €55,300**
- **Contribution Margin**

  = Sales – Variable COGS

  = €253,000 – €55,300

  = €197,700
- **Total Fixed Costs**

  = Fixed Production Overhead + Selling & Admin

  = €28,600 + €44,500

  = €73,100
- **Net Profit**

  = Contribution Margin – Fixed Costs

  = €197,700 – €73,100

  = €124,600

March – Absorption Costing

- **Sales Revenue**

  = 15,500 units × €22 = €341,000
- **COGS Variable:**

  Materials = €33,250

  Labour = €22,000

  Variable Overhead = €8,500

  Total Variable = €63,750

  Fixed Overhead = €28,600

  Total COGS = €63,750 + €28,600 = €92,350
- **Gross Profit** = €341,000 – €92,350 = €248,650
- **Net Profit =** €248,650 – €57,100 = €191,550

March – Variable Costing

- **Variable COGS = €63,750**
- **Contribution Margin**
  = €341,000 – €63,750 = €277,250
- **Fixed Costs:**
  = €28,600 + €57,100 = €85,700
- **Net Profit**
  = €277,250 – €85,700 = €191,550

The Analysis and Insights

- Although using different costing approaches will yield the same net profit for February and March, due to production and sales being similar, with no variance as to opening or closing inventory, especially for February when there is no inventory.
- Nonetheless, the format in which the profitability is presented is defined differently:
- Absorption costing includes fixed overhead in product cost that impacts inventory valuation.
- Variable costing expensed fixed overhead in the period as an expense providing transparency into contribution margin and rate of growth, which leads to break-even and decision-making analysis.
- Swipe 50 Limited can make use of both costing systems dependent on the financial information needed. The use of absorption costing fulfils the external reporting standards (i.e., GAAP/IFRS) and variable costing is applicable for internal control, cost management, and type of managerial decision making.

2- **<u>Reconcile the profit calculated using absorption costing to that using variable costing</u>**

When comparing profits established by absorption costing with variable costing profit, the primary difference is the treatment of fixed manufacturing overhead. Fixed manufacturing overhead is absorbed into product cost under absorption costing; however, fixed manufacturing overhead is treated as a period expense and charged directly to profit in variable costing. Therefore, having ending inventory will create a difference in profit between absorption costing and variable costing because fixed overhead is deferred in inventory in the unsold units.

<u>Reconciliation for February</u>

Absorption costing net profit	**€124,600**
Fixed production overhead	**€28,600**
Production units	**12,500 units**
Sales volume	**11,500 units**
Closing inventory	**12,500 - 11,500 = 1,000 units**

1- **<u>To ascertain the amount of fixed production overhead remaining in the closing stock:</u>**

- Fixed production overhead per unit €28,600 12,500 units = €2.29 per unit
- Fixed overhead allocated to closing inventory 1,000 units x €2.29 = €2,290

2- **<u>Subsequently, variable costing attributes the entire fixed overhead to period costs, but absorption costing leaves fixed overhead as only applied to the units sold, therefore prescribed reconciliation as:</u>**

- Variable costing profit = Absorption costing profit + fixed overhead deferred in inventory
- Variable costing profit = €124,600 + €2,290 = €126,890

In conclusion, the fixed manufacturing overhead has a €2,290 difference that has been reported in the inventory of €2,290 still carried forward under absorption costing or fully expensed under variable costing.

Reconciliation for March

Absorption costing net profit: €191,550

Production: 14,500 units

Sales: 15,500 units

Opening inventory (February): 1,000 units

Closing inventory: (14,500 + 1,000) – 15,500 = 0

1- There was no ending stock to carry forward incurred fixed overhead costs because all available units of inventory for sale were sold in March and, therefore the difference between the two methods was zero:
2- Profit under variable costing = Profit under absorption costing = €191,550

The Analysis and Insights

In conclusion, profit variances between absorption costing and variable costing methods will only occur when volume of production and volume of sales are not exactly equal, which leads to changes to inventory balances. In February, we had a closing stock that resulted in higher profit reported under variable costing, even after making the adjustment for fixed overhead carried in closing inventory. In March, we sold all of the available stock, so we had no difference between the two costing systems, and that is reflected in profits. This reconciliation example demonstrates how inventories movements can change total reported profits, depending on the costing method applied.

3- <u>Explain how each method differs from the other method and also explain the importance of each method.</u>

- Managerial accounting provides very powerful tools to support decisions in business settings. This is particularly true in manufacturing settings. Two of the potentially most useful tools is the absorption costing method and the variable costing method. Both of these methods are fundamentally different and complement each other in supporting the decision-making process. It is vital that managers understand the differences in order to correctly interpret profitability information and make appropriate strategic and operational decisions.

- Absorption costing is sometimes referred to as full costing, because it allocates all manufacturing costs (variable and fixed) to the units being produced. That is, the costs of direct materials, direct labour, variable production overhead, and fixed production overhead, are all capitalized into the product cost. When products are finished (but not sold) their costs, including the share of fixed overhead cost attributed to the product, stay in the ending inventory on the statement of financial position. The costs are only transferred to the income statement as cost of goods sold when the product is actually sold. This is consistent with generally accepted accounting principles (GAAP) and IFRS; therefore, absorption costing is commonly used for preparing external financial reports.

- In contrast, variable costing considers only direct materials, direct labour, and variable manufacturing overhead to be product costs. Fixed production overhead is a period cost and charged against income in the same accounting period incurred. This means that the ending inventories will only have variable production costs and therefore have a lower ending inventory balance compared to absorption costing.

- The different treatment of fixed manufacturing overhead will have several implications. When production is higher than sales, absorption costing will capitalize part of the fixed overhead into inventory and report higher profit because fewer costs will be reported in the income statement in the current period. Variable costing takes the entire amount of fixed production overhead in the current period. As a result, it will produce lower profit in the period of inventory build-up. Conversely, when production is lower than sales and inventory is being depleted, variable costing will potentially report more profit than absorption costing because the fixed overhead from previous periods cannot remain in inventory, while absorption costs will report the previously deferred fixed manufacture overhead when the cost of goods sold is released.

- This difference indicates that absorption costing profit can be affected by production levels, rather than solely by sales. It is even possible for managers to have incentives under absorption costing to produce more units than are needed so as to improve reported profits because more fixed costs would be absorbed into unsold inventory, thus delaying the effects of them on the income statement. This risk is avoided under variable costing because fixed overhead always gets treated as a period cost. The nature of variable costing allows managers to maintain a more direct tracing of the costs of production to sales, which is beneficial for short-term decision making, cost volume profit analyses, and break-even evaluations.

- For example, if a manager wishes to determine how many extra units need to be sold in order to reach a certain profit target, the information under variable costing is preferable because it reports a contribution margin directly after the calculation of (sales revenue minus variable costs) once. This is not to mention how deferred fixed costs in inventory clouds the link between profits and sales volume. Variable costing essentially provides a direct perspective of how a change in sales volumes equal a change in operating income.

- After noting its utility for management accounting purposes, absorption costing is still useful to get all production costs matched with the revenue generated by products sold, based on the matching principle in financial accounting. Given that financial statements need to be comparable, standardized, and externally audited, absorption costing allows the same framework for valuing inventory and measuring profits across firms. Investors, creditors, and regulators lean towards these standardized statements; therefore, some form of absorption costing is critical for external reporting purposes.

- Another avenue of difference is in how each approach formats the income statement. Absorption costing follows a classical, traditional format typical of income statements, where sales are shown, followed by cost of goods sold and gross margin and then by operating expenses. In this presentation, both fixed and variable costs are embedded together as part of cost of goods sold. For variable costing, however, a contribution margin format is presented, in which variable expenses are deducted from sales to arrive at contribution margin, before fixed expenses deducted to arrive at operating profit. In this presentation, costs are presented based on their respective behaviours, while highlighting the marginal profit upside from the growth of sales.

- There is also a difference in how inventories are valued: inventories are larger under absorption costing because they include a portion of fixed production overhead. This means that an entity applying absorption accounting may report higher assets on their balance sheet during periods of high production volume and moderate sales volume. Variable costing, on the other hand, does not include fixed overhead in the calculation of inventories, so the measured value of the unsold product is lower; some may argue and prefer this as more realistic from a cash-flow perspective.

- Managers must understand that one method is not necessarily better than the other; each method addresses a different need. Absorption costing is prepared under a framework that complies with accounting standards, and provides consistency in reporting for users of financial statements. Given that users of financial statements include stakeholders holding various interests, absorption costing is necessary for reporting labour and overhead costs incurred. Variable costing is used for purposes of internal management accounting reporting. The report (variable report) helps managers improve performance within profit planning (for longer periods) and in short-term profits.

- Ideally, the variable and absorption methods are both prepared at the same time: one method for externally prepared statutory reporting, the other for performance measurement and planning.

4- Explain three ways that Swip 50 Ltd. can improve its accounting systems

Improving Swipe 50 Ltd.'s Accounting Systems

In the fast-moving and increasingly digital business world of today, accounting information systems are by far one of the most critical Success Factors for all manufacturing and service firms, including Swipe 50 Ltd., in terms of providing adequate and timely accounting/purchasing/receiving/payroll information relevant to the needs of all management operations. Therefore, modern accounting systems do not only record financial transactions or prepare basic financial statements, they must also be able to assist with management decision-making and efficiently and effectively consolidate and integrate data from a variety of sources and aspects of the business in one system and connect operational, administrative, and strategic components of a manufacturing firm. Accordingly, Swipe 50 Ltd. is committed to improving the internal control and reporting aspects of its accounting systems, at the beginning of which, the company could grow its employee's business operations in a way that makes it highly competitive, and the accounting system could also support future growth. By providing in-depth descriptions of three important ways that could help to develop its accounting systems.

1. **Moving to Cloud Accounting Systems**

   Cloud accounting systems represent an innovative leap in the management of financial information. Transitioning accounting software to a cloud platform can allow Swipe 50 Ltd. to provide management and other stakeholders access to real- time, complete, and accurate information, at any time and on any device. This flexibility allows management to make more agile decisions when market or supply chain interruptions occur, an important stakeholder consideration. Using a cloud accounting system can also provide significant cost savings of on-premise systems, as it will eliminate refresh cycles for expensive in-house servers that require upgrading and maintenance, as well as offering regular automatic updates and security of data as part of the service.

2. **Activity-Based Costing (ABC)**

can dramatically enhance cost accounting accuracy since it allows for a more direct tracing of costs to those products or services that consume those costs. Under the ABC methodology, companies do not simply allocate their overhead across all products on a more arbitrary basis, such as some additive mixed percentage, but organize their costs based on actual activities consumed and resources utilized, thus revealing the "hidden" inefficiencies that can be stunted to driving improvement. In summary, the adoption of ABC will provide Swipe 50 Ltd, with a more transparent and comprehensive view of where and how its resources are used across the production process. As a result, managers will be able to make more informed choices on pricing, product mix or cost-control strategies.

3. **Reporting Enhancements using IFRS**

In view of the evolving business activities of Swipe 50 Ltd. as it expands its reach across the globe, it would be a wise step to evolve to the next level of financial reporting with International Financial Reporting Standards (IFRS). Being compliant with IFRS will give Swipe 50 Ltd., not only credibility, but also increased trust from the various stakeholders. When Swipe 50 Ltd. reports according to IFRS, it means the reports will be evaluated against globally recognized standards of transparency, consistency, and comparability, resulting in increased trust from investors, lenders and the broader community of business associates.

5- State why managing accounting jobs are important in a manufacturing company

Managerial accounting is a very valuable tool in manufacturing companies. It captures vital financial and non-financial information useful in decision making. One function of managerial accounting is to comprehensively capture direct and indirect costs for the purposes of prudent use of all costs of production and minimizing wastage. After all, it is a company objective to responsible reduce their costs of production to improve their profitability. Therefore, if managers are able to spend time and energy understanding what their costs of production are, they will establish a course of action to control the production process, positioning them to develop competitive pricing decisions and control their operating budgets. Moreover, managerial accounting also provides a set of tools to support managers with any relevant compliance process, such as compliance with financial statements, disclosures or other specific compliance processes. Compliance is critical to the organisation over the long term, as it provides assurance to investors, lenders and external customers about the organisation's ability to meet regulations.

In addition, company managers are provided with a managerial accounting system that can support strong inventory control practices, allowing the company to monitor stock levels, decrease excess inventory, and optimize working capital. Being able to accurately process inventory will prevent production downtime and ensure that products are readily available whenever customers need them. In sum, managerial accounting provides the very basis for operational control in a manufacturing context, bridging financial transactional processes to organizational, strategic business goals and day to day production operations.

Conclusion

This report has discussed in detail the managerial accounting practices relevant to Swipe 50 Limited and focused on costing methods, profit reporting, and improvements to reporting systems. The analysis has shown variable costing and absorption costing are differences in how we calculate product costs. They are both useful in their own way for financial reporting and a managerial capacity to ensure that costs are understood, adhered to and managed. Absorption costing includes all manufacturing costs considering total fixed and variable costs included in the cost of inventory, as it is included per the acceptable financial report standards and still meets the external reporting requirements. This was important given this included producing income statements as required by regulators of capital, taxation authorities, and external parties or investors etc.

In comparison, variable costing is focused on variable costs of production as the product cost and considers fixed manufacturing overhead to be a period expense. In this way variable costing allows the manager a more transparent view of the behaviours of costs, where the costs align with sales volumes and enhances managerial decision-making capacity.

Furthermore, variable costing directly shows contribution margin restricting fixed cost and not directly adding to profits/losses. Therefore, it is possible to do break-even studies, pricing decisions, and short-term capacity planning in its nature and position.

It is clear that variable costing is not, generally speaking, as widely adopted as absorption costing; however, it is continuing to gain traction in practice in the industrial setting because of its ability to provide a more practical managerial decision context—that is, it provides more useful information. Many organizations, including manufacturing companies like Swipe 50 Limited, are keeping records on a variable costing basis for all day-to-day internal decision-making, and then making adjustments at the end of the accounting year for external usage under the absorption costing approach. This dual-recording practice provides the organizations with external compliance and sound internal cost control.

Absorption costing certainly has some inverse and undesirable motivators such as rewarding managers for considering overproduction (by providing them with more units over which to allocate fixed overhead) thereby increasing the company's gross margin during the short-term. They can reduce its focus on inventory efficiencies and long-term profitability.

To discourage any tendencies toward overproduction several recommendations: utilize strict budgeting and inventory controls; only use variable costing practices for internal assessments; apply carrying charges on excess inventories; use performance evaluations for longer periods, instead of shorter periods; and most importantly add a management performance assessment that focuses on non-financial metrics like the sales-to-inventory ratio.

Finally, the report noted the value of managerial accounting functions in a manufacturing context. Accounting systems not only capture and describe data with respect to past events but they also assist managers with planning, controlling, and tactically directing a business' future. These functions, which include activity costing, compliance reporting, strategic planning, and inventory management, are key in independently ensuring that Swipe 50 Limited maintains its competitive presence in the screen protector market. As Swipe 50 Limited will to converge accounting processes, including production processes, in a strong managerial accounting structure and aligning those with advanced technology, the company will leverage the data obtained to implement monitoring and decision making, and support for profitability both in the short run and the long run.

References

1- Khalilov, B. B. (2024). MANAGERIAL ACCOUNTING-THE LANGUAGE OF BUSINESS MANAGEMENT. Gospodarka i Innowacje., 49, 249-255.

2- Brewer, P. C., Garrison, R. H., & Noreen, E. W. (2022). Introduction to managerial accounting. McGraw-Hill.

3- Garrison, R. H., Noreen, E. W., & Brewer, P. C. (2021). Managerial accounting. McGraw-Hill.

4- Warren, C. S., Jones, J. P., & Tayler, W. B. (2020). Financial and managerial accounting. Cengage Learning, Inc.

5- Mowen, M. M., Hansen, D. R., & Heitger, D. L. (2018). Cornerstones of managerial accounting. Nelson Education Ltd..

6- Irbekovna, A. Z., & Anatolyevna, S. T. (2017). Modern concepts of managerial accounting. Политематический сетевой электронный научный журнал Кубанского государственного аграрного университета, (132), 655-665.

7- Hasan, M. (2015). Variable costing and its applications in manufacturing company. International Scholar Journal of Accounting and Finance, 5(1).

8- Crosson, S. V., & Needles, B. E. (2014). Managerial accounting. South-Western Cengage Learning.

9- Islam, J., & Hu, H. (2012). A review of literature on contingency theory in managerial accounting. African journal of business management, 6(15), 5159-5164.

10- Soobaroyen, T., & Poorundersing, B. (2008). The effectiveness of management accounting systems: Evidence from functional managers in a developing country. Managerial Auditing Journal, 23(2), 187-219.