

Good essay about accounting for managers

[Business](#), [Company](#)



Commercial Plane Company limited

Cost statement/ unit

‘ Millions’ ‘ millions’

Selling price 105

Less:

Variable cost (90)

Contribution 15

Break-even point refers to the point whereby the total sales or revenue of a company are equal to the company's costs incurred on the units sold. The break-even point can be calculated in terms of the number of units that require to be sold in order to cover the sales value required as well as being represented in terms of sales or revenue value based on the currency of the country where the transaction is taking place.

Breakeven has been widely embraced in management accounting to forecast on their future performance. Having known different ways to “ play” with numbers in this field of breakeven analysis, Managers have been able to know how much resources should be employed in a production process in order to realise a certain profit. It's a better forecasting tool other than mere estimation.

Companies use this analysis when planning and budgeting on their production level as well as sales and marketing.

Breakeven point in units = Fixed cost/ (contribution/ unit)

= 1425/ 15

= 95 planes

Breakeven point in sales = Breakeven point in units*selling price/unit

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$$= 95 \times 105$$

$$= \$9975 \text{ millions}$$

Commercial Plane Company limited

Cost statement

' Millions' ' millions'

Selling price (105*99) 10395

Less:

Variable cost (90*99)(8910)

Contribution 1485

Less:

Fixed Cost (1425)

Operating profit 60

New fixed cost = $1425 - 126 = \$1299$ millions

New Variable cost/ unit = $(90 - 4) = \$86$ millions

Commercial Plane Company limited

Cost statement

' Millions' ' millions'

Selling price (105*99) 10395

Less:

Variable cost (86*99) (8514)

Contribution 1881

Less:

Fixed Cost (1299)

Operating profit 582

Contribution/ unit = 1881/ 99

= 19

Breakeven point in units = Fixed cost/ (contribution/ unit)

= 1299/ 19

= 68. 37 units = 69 units

Breakeven point in sales = 69*105 = \$7245 millions

The reduction in fixed and variable cost causes a decrease in breakeven point units from 95 to 69 that is by $(95 - 69) = 26$ units. It also reduces the breakeven point in sales from \$9975 million to \$7245 million that is by $(9975 - 7245) = \$2730$ million.

New variable cost/unit = 105% of \$90 million = \$94. 5million

Commercial Plane Company limited

Cost statement/ unit

' Millions' ' millions'

Selling price 105

Less:

Variable cost (94. 5)

Contribution 10. 5

Breakeven point in units = Fixed cost/ (contribution/ unit)

$$= 1425 / 10.5$$

$$= 135.71 = 136 \text{ units}$$

$$\text{Breakeven point in sales} = 136 * 105 = \$14280 \text{ million}$$

A company may experience a number of factors that may lead to its total cost increasing. Total cost is made up of total variable costs and fixed variable cost. In the case of increasing total cost, the culprit is usually the increasing variable cost and rarely the fixed cost which normally changes in the long run. The profits of a company are maximised when either the sales are maximised or costs are minimised. In this case we try to analyse some of the strategies a company can implement in order to minimise costs.

If the industry has inelastic demand, then the company can increase its prices accordingly to cover the increased variable cost. A company can also produce in bulk in order to spread the fixed costs accordingly thus reducing the overall costs. The company can also consider buying the raw materials in large quantity so as to get large quantity discounts thus mitigating the high variable cost. The company can also consider looking for alternative raw materials to replace the expensive one thus reduce the variable cost.

References

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