# Variable and fixed costs

Finance

Variable and Fixed Costs Part I Financial accounting mainly focuses on financial ments that distributed to financial analysis, lenders, stakeholders and others that are outside the company. On the other hand, financial accounting courses covers general principles of accounting that are generally acceptable. These are principles that must be followed in reporting a corporations' past transaction results on its income statement, balance sheet, cash flows' statement, and statements showing changes in the equity of shareholders. On the other hand, managerial accounting focuses on providing information that is essential and is found within the company so that the management of the company can use that information to effectively operate it (Martin). Managerial accounting also provides guidelines that are used to compute cost of products at the manufacturing enterprise. Managerial accounting courses include cost behavior and break-even point among others.

The financial information needs to meet the standards of GAAP (Generally Accepted Accounting Principles). They may also need to meet OTHER Comprehensive Basis of Accounting (OCBOA). However, Martin observes that financial statements may also be constructed in a way that meets internal management needs for the purposes of decision making. The role of managerial accounting profession in the business environment today is providing foundation in management, strategy and accounting using information that is either financial or non-financial to direct decisions that are operational and tactical in a business. This has changed overtime because today, it is applied even in the government and puts more on ethics unlike in the past where it mainly concentrated on management accounting in businesses only. The designation of Certified Management Accountant provides an accounting and management foundation, which uses both non-financial and financial information to direct operational and tactical decision making in government and industry. Its subject matter includes management accounting, strategy, operations management, corporate finance statistics, financial accounting, internal control and economics, with greater emphasis on ethics.

Part II

The main differences between absorption (behavioral) and contribution (variable) income statements is that absorption income statements, also referred to as full costing, are required by GAAP for external reporting. It is also formed on the basis of inventory costing (Walter, 2011). The absorption costing rationale causes products' measuring and reporting at their complete costs. On the other hand, variable costing normally mitigates for the deficiencies in the absorption costing. Like its name, it only assigns costs of variable production to cost of sales and inventory. Walter (2011) says that this approach shifts the fixed costs of manufacturing from the category of production cost to the group of period cost. The net income will not necessarily be the same under the two approaches. It will only be the same if there is no change at the beginning and at the end of inventory.

Companies create another income statement using a different format because they feel that income statement created using US GAAP does not fully meet their needs. Therefore, a company will internally need a different income statement that will help it analyze its individual services and products or groups of services and products. Such information is very useful in the process of decision making in a company. Breakeven analysis can be very important tools in helping a business determine the required volume of sales that will help it cover its costs (Martin). It further helps in working out the contributions of each unit sales and the contribution of sales of each unit in covering indirect and fixed costs of a business. For example, if a product is sold at $ 15 and it's per unit variable cost is $11; each unit sale will therefore make $ 4 as contribution to the company's fixed costs. Therefore, if the fixed costs of a business are $ 20, 000, it will have to sell 5, 000 units in order to attain a breakeven point.

References

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