

## MANAGEMENT ACCOUNTING I

### MANAGEMENT

School Year 2014/2015

#### Case 2 for Assessment

EMBALA company produces and markets a type of packages named MBL. At the present time the company only uses 75% of its standard (normal) capacity, selling only on the domestic market.

Regarding the year N and using the **Absorption Costing System**, the following P&L Statement per Functions was prepared:

Description	Value (€)
Sales	300 000
MCPS+NPMC	200 000
Gross Profit	100 000
Selling (distribution) Expenses	
Variable	20 000
Fixed	30 000
Administrative Expenses (fixed)	15 000
Operational Profit	35 000
Financial Expenses (fixed)	15 000
Profit before Taxes	20 000

The following data are also known:

- Opening stock: 0
- Closing stock: 10 000 units
- There is no Production in Progress
- Standard (normal) capacity: 40 000 units
- Monthly manufacturing costs:
  - Variable 120 000 €
  - Fixed 180 000 €

**Presenting the calculations, it is required:**

1. Prepare the Profit & Loss Statement, using the rational costing system and the variable costing system (Appendix 1);
2. Explain, using the notion of fixed manufacturing costs, the difference of the profits obtained using the rational and the variable costing systems (Appendix 2);
3. Ascertain the breakeven point and the margin of safety of the company in the year N (Appendix 3);
4. Estimate the profit, if the company would sell all of its production (Appendix 4);
5. To succeed in increasing the market share, the company's managers consider the possibility of decreasing the selling price in 5€ per unit. Calculate the minimum quantity that the company should sell to reach its threshold of profitability, considering that all the remaining assumptions do not change (Appendix 4);
6. The company considers the possibility to export to the external market 6 000 units at the selling price of 10 €/unit, but the unit variable selling (distribution) expenses will increase 1.5 €/unit. Should the company approve this business, maintaining the current production sold on the national market? (Appendix 5).

## **Case for Assessment 2 - APPENDICES**

### **Appendix 1**

#### **P&L Statement per Functions**

<b>Description</b>	<b>RC System (€)</b>	<b>VC System (€)</b>
Sales		
MCPS+NPMC		
Gross Profit		
Selling (Distribution) Expenses		
Variable		
Fixed		
Administrative Expenses (fixed)		
Operational Profit		
Financial Expenses (Fixed)		
Profit before Taxes		

#### **Supporting Calculations**

## Appendix 2

	<u>RC System</u>	<u>VC System</u>
<u>Fixed manufacturing costs:</u>		
<u>In MCPS</u>		
<u>In NPMC</u>		
<u>Total</u>		
<u>Dif. fixed manufacturing costs</u>		
<u>Gross Profits</u>		
<u>Difference in the Gross Profit</u>		

### Supporting Calculations

## Appendix 3

[illegible]

## Appendix 4

[illegible]

## Appendix 5

[illegible]