BusinessEducation.ie
Supporting Irish Leaving Certificate Students

Resource Sheet – Accounting

Marginal Costing – Student Activity Answers

(Q1) Formula used in all parts of the Mooney Ltd. question.

Sales Revenue = Variable Costs + Fixed Costs + Net Profit

(Q2) The difference between rounding an answer in units and rounding an answer in €.

Units are always rounded up e.g. 23,728·2 units are rounded up to 23,729 units.

Euro are only rounded up if the figure is ≥ 5 e.g. €17·242 is rounded down to €17·24.

(Q3) List and explain the limitations / assumptions of marginal costing.

(i) Selling per unit is constant – this can change due to discounts allowed.

(ii) Variable cost per unit is constant – this can change due to economies of scale or higher costs.

(iii) Fixed costs are constant – most fixed costs are only fixed within a relevant range (**step fixed**).

(iv) Mixed costs are easily separated into fixed costs and variable costs **–** the High Low method cannot always be used to do this.

(v) Production equals sales – no fixed costs are carried forward to the next period.

(Q4) (a) Purpose for which the Contribution Sales Ratio is regularly used?

The Contribution Sales Ratio is used to calculate the break-even point.

(b) When is the use of this ratio essential?

It is essential when necessary figures are not available – variable cost or selling price or units.

(Q5) Step Fixed Cost

Costs that are fixed within a certain range of activity but which change outside of that range e.g. rent.

(Q6) (a) The differences between Marginal and Absorption Costing.

Marginal costing does not include fixed costs, but absorption costing does.

Therefore, closing stock and profit will be lower figures in marginal costing.

(b) Indicate which method should be used for financial accounting purposes and why.

Absorption costing should be used as it agrees with standard accounting practice and it matches all costs with revenues.

(Q7) The differences in focus between Management Accounting and Financial Accounting

i. Management Accounting plans for the future and provides information for planning and budgeting. Financial Accounting records past events and provides information in the form of a profit and loss account, balance sheet and cash flow statement.

ii. Management Accounting has an internal focus and provides information to aid planning and decision making. Financial Accounting has both an internal and external focus and provides information to stakeholders such as managers, shareholders and creditors.

iii. Management Accounting is not governed or restricted by legislation or legal requirements. Financial Accounting is governed and restricted by legislation and accounting standards e.g. Financial Reporting Standards (FRS).

iv. Management Accounting prepares reports as often as managers require them. Financial Accounting normally prepares reports annually.

v. Management Accounting prepares reports for cost-centres / departments. Financial Accounting prepares reports about the whole business.