***Theoretical & Practical questions with solutions***

**Q1//** What are the differences between Managerial and Financial Accounting?

Your answer:

| Managerial Accounting | Financial Accounting |
|---|---|
| Managers, within the organization. | Interested parties, outside the organization. |
| Not required and unregulated, since it is intended only for management. | Required and must conform to generally accepted accounting principles. Regulated by the Financial Accounting Standards Board, and, to a lesser degree, the Securities and Exchange Commission. |
| The organization's basic accounting system, plus various other sources, such as rates of effective products manufactured, physical quantities of material and labour used in production, occupancy rates in hotels and hospitals, and average take-off delays | Almost exclusively drawn from the organization's basic accounting system, which accumulates financial information. |
| Reports often focus on subunits within the organization, such as departments, divisions, geographical regions, or product lines. Based on a combination of historical data, estimates, and projections of future events. | Reports focus on the enterprise in its entirety. Based almost exclusively on historical transaction data. |

**Q2//** Explain the following in the form of definition:

- Break-even point: A breakeven point is used in multiple areas of business and finance. In accounting terms, it refers to the production level at which total production revenue equals total production costs. In investing, the breakeven point is the point at which the original cost equals the market price.
- Margin of safety: The margin of safety is the difference between the amount of expected profitability and the break-even point. The margin of safety formula is equal to **current sales minus the breakeven point, divided by current sales**
- Financial Budget: means predicting the income and expenses of the business on a long-term and short-term basis.
- Master Budget: is a financial document that includes how much an organization plans to make and how much it plans to spend over a fiscal year
- Operational Budget: **is** a forecast of the revenues and expenses expected **for** one or more future periods.
- Budget and budgetary control:
  **Budget: is** an estimation of revenues and costs for a period.
  **Budgetary** control: is the systematic process where management uses.

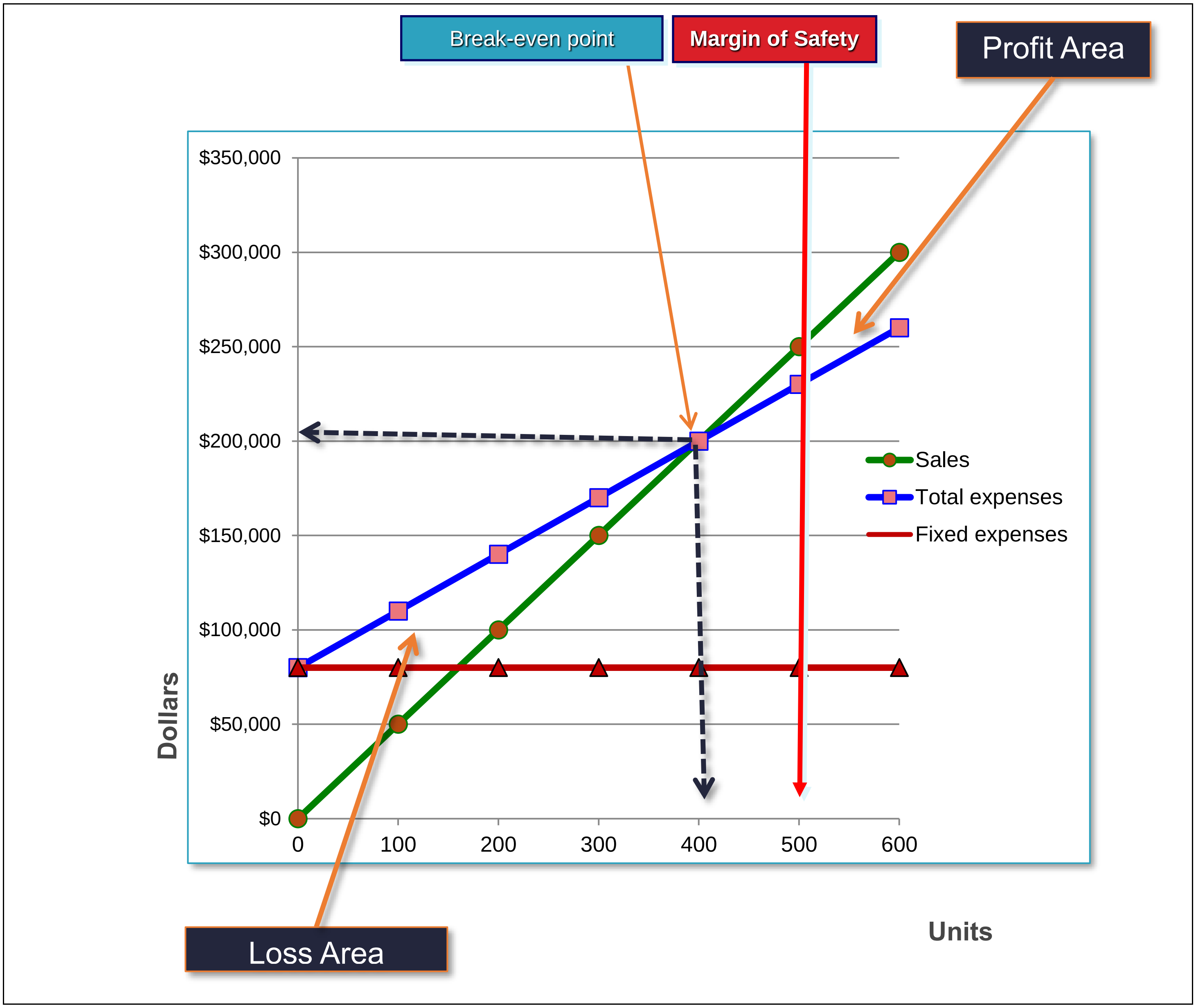
**Q3//** For industry bank the following information were available about its product: (4000 unit), (Selling price $100), (Variable Cost $100000), and (Fixed Cost $60000).
**Required//** Compute the Margin of Safety (MOS) for this Bank by (Unit, Dollar, and Percentage)
**NOTE:** You requested to explain the MOS by Graph Method!

Your answer here and/or use the next page:

First of all, the total variable costs must be converted into variable costs per unit =100000/ 4000= $25 vc/u
Then:
MOS (Unit) = 4000 – (60000/(100-25) ) = 4000-800= 3200 units

MOS (Dollar) 4000 x 100 – (60000/(100-25)/100 = 400000- (60000/0.75) = 400000-80000= $320000

MOS (Percentage) = 3200unit / 4000 unit OR $320000/$ 400000= 0.80 x 100%= 80%



Break-even point
Margin of Safety
Profit Area
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Dollars
0
100
200
300
400
500
600
Units
Sales
Total expenses
Fixed expenses
Loss Area