**Cost & Management Accounting**

# December 2021 Examination

**1. Three partners choose to go the start-up way. They run a chain of Pet Spa across Mumbai and Pune. For the accounting year 2022, their business observes increasing prices for materials. Hence, while preparing their financial statements, the three partners had varying objectives behind their method for pricing the materials.**

**Objective I: The partners wished to hypothecate inventory and take a loan. Hence, higher pricing of ending list in the business' balance sheet would be desirable.**

**Objective II: The partners would wish to attract lower taxes on the business' profit, and hence a lower profit before tax would be desirable.**

**Discuss in brief any five material pricing methods that businesses may adopt. Identify the pricing methods that would achieve objectives I and II. (10 Marks)**

**Introduction:**

When it comes to pricing materials or stores, a variety of strategies are employed. Regardless of whether the technique is used, the actual distribution of commodities will constantly be based on first in, first out. In other words, the first consignment of materials will always be the only one released to the public. Value or price materials supplied for production may be completed in a diffusion of approaches. Depending on the sort of materials used and the nature of the Its Half solved only

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**2. Mr. Sharma, founder of Pima Plastics, desires to increase the business's profit in the coming year. He calls for a meeting with the managerial-level personnel and explains to them that the selling price of their product is based on the prevailing market prices of their competitors. He seeks their advice on whether they should work backward to optimize their costs by determining a standard cost for each component. Explain the process of standard costing to the founder as one of the managerial-level personnel. Would following standard costing help the founder in increasing the profit of the business? (10 Marks)**

**Introduction:**

This approach compares everyday costs and sales with actual results to decide variations and their reasons. It is used to determine the selling price while preparing quotes and measuring performance, control variances, and cost inventories. It is used to alert control of deviations and to take corrective steps to enhance the business. Standards charges depend on numerous factors and can be described as the expected price according to the unit of items produced all through

**3. Futuristic was a newly set up firm in 2019. It is in the business of providing artwork. However, being in the business of standard art objects (non-essential items), it did not do well once COVID-19 hit it. It has a selling price of ₹2,500 per piece and a variable cost of ₹1,000 per piece. It incurs an annual fixed cost of ₹30,00,000.**

**a. The manager of the business wishes to know-**

**Thenumberofartpiecestheymustselltobeatthebreak-evenpoint**

**Thecontributionmargin**

**Whether the firm is earning a profit or incurring a loss by selling 2,100 art pieces (5 Marks)**

**Introduction:**

As a financial approach, break-even evaluation assists a firm in ascertaining the factor at which it will likely be profitable, whether it's an agency, a new service, or a product. This means that a firm must determine how many gadgets or services it must promote or supply to cover its costs

**b. To combat the current difficult situation, the manager plans to curb the variable expenses and bring them to ₹500 per piece. Compute the new break-even point and contribution margin. Analyze and explain the movement in contribution margin to the manager. (5 Marks)**

**Introduction:**

There are two methods to calculate the contribution margin. On an according-to-unit or gross basis, a company's incremental income for every product or unit bought after variable expenses were subtracted. As a result, it can decide the income capacity of an organization's product and