**Cost & Management Accounting**

**September 2023 Examination**

**Question 1**

**Rayan Ltd has provided the following information:**

|  |  |  |
| --- | --- | --- |
|  **Quantity (kg)**  |  **Unit Rate (Rs.)**  | **Total (Rs.)**  |
| **Standard**  |
| **Material X**  | **10**  | **2**  | **20**  |
| **Material Y**  | **20**  | **3**  | **60**  |
| **Material Z**  | **20**  | **6**  | **120**  |
| **Total 50** |  |  **200**  |
| **Actual**  |
| **Material X**  | **5**  | **3**  | **15**  |
| **Material Y**  | **10**  | **6**  | **60**  |
| **Material Z**  | **15**  | **5**  | **75**  |
| **Total**  |  **30**  |  **150**  |

**You are required to compute the following and interpret the result:**

**a) Material cost variance**

**b) Material price variance**

**c) Material usage variance**

**Ans:**

**Introduction:**

Effectively managing costs and resources is critical to running a successful business. In production and production environments, the value of materials significantly determines a company's standard profitability and competitiveness. To assess the performance and efficiency of fabric utilization, variance analysis is a widely used technique.

Variance analysis entails comparing the standard or budgeted costs of substances with the actual prices incurred during a period. By reading the differences among these figures, managers can identify areas of development, make informed decisions, and take corrective actions to enhance

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**Question 2**

**Tony India produces a single product. The following figures related to the single product for the year 2021-22 is given.**

|  |  |  |
| --- | --- | --- |
| **Activity Level**  |  **50%**  |  **100%**  |
| **Sales (units)**  |  **400**  |  **800**  |
| **Sales (Rs.)**  |  **8,00,000**  |  **16,00,000**  |
| **Production costs:**  |
| **Variable**  |  **3,20,000**  |  **6,40,000**  |
| **Fixed**  |  **1,60,000**  |  **1,60,000**  |
| **Selling and distribution cost**  |
| **Variable**  |  **1,60,000**  |  **3,20,000**  |
| **Fixed**  |  **2,40,000**  |  **2,40,000**  |
|  |  |  |

**Prepare the Income statement under marginal costing for sale of 600 units.**

**Ans:**

**Introduction:**

Costing techniques play a vital role in supporting businesses to understand and analyze their overall financial performance. One such method is marginal costing, which separates charges into fixed and variable additives. By doing so, marginal costing enables businesses to make informed choices regarding pricing, production ranges, and profitability.

In this context, we can prepare a profits statement under marginal costing for Tony India, a corporation that produces a single product. The profits assertion will specifically remember the sale of 600 units and comprehensively review the company's revenue and fees.

**Question 3a**

**Picture Ltd is manufacturers of picture tubes for television. The following data is available with respect to a product.**

**(a) Cost of placing a purchase order is Rs. 20**

**(b) Number of units to be purchased during the year is 5,000**

**(c) Purchase price per unit inclusive of transportation cost is Rs. 50**

**(d) Annual cost of storage per units is Rs. 5**

**You are required to compute the Economic Order Quantity. What if the inventory maintained by the company is 500 units? (5 marks)**

**Ans:**

**Introduction:**

Inventory management is an essential component of any business that involves holding and managing shares of goods. The economic order amount (EOQ) is an extensively used inventory management formula that helps companies determine the optimal amount of stock to minimize costs.

**Question 3b**

**Avent Ltd manufacturing a single product. The selling price of the product is Rs. 500 per unit. The unit variable cost is Rs.300 per unit and a fixed cost of Rs.2,00,000 per month is incurred. Compute the breakeven point in units and value. (5 marks)**

**Ans:**

**Introduction:**

The breakeven point is when a company's total sales equal its actual costs, resulting in neither profit nor loss. To calculate the breakeven threshold, consider the selling price, variable price per unit, and fixed costs.

**Concept & application:**

The breakeven point is a significant financial metric for companies as it indicates the level of