

30-June-2020

Homework.

Date _____
DELTA PD NO _____

Questions

Q1. Classify types of inventory and their respective valuation method?

Ans There are three types of inventory for manufacturing and selling.

- Raw material :- These are the material or goods purchased by the manufacturer. The manufacturing process is applied to the raw material to produce desired finished goods.
- Work-In-Progress (WIP) :- These are the partly processed raw materials lying on the production floor. They may or may not be sellable. These are also called Semi-finished goods.
- Finished Goods :- These are the final products after manufacturing process on raw materials. They are also sold in market.
- Packing Material :- packing material is the inventory used for packing of goods. It can be primary packing and secondary packing.

METHODS OF VALUATION OF INVENTORY

Cost :- Cost of the inventory includes the cost of

Purchase of raw materials. To this we will add the cost of conversion. These will be direct expense of the manufacturing process like direct material and indirect labour etc. Any other costs to bring the inventory to its wanted condition will form a part of this cost. Abnormal losses, storage, distribution and selling cost will be avoided.

- Net Realizable Value: This is the estimated price of a finished goods after deducting the costs to make the sales.

In the case of raw material, it will be the replacement costs of the raw material i.e., their market price.

(* When cost and NRV both are given then we will choose whichever is lower.)

Ques: What do you meant by cash flow and classifying the activity of cashflow with their suitable examples?

- Ans: Cash flow statement: Cash flow statements shows the inflow and outflows of cash and cash equivalents from various activities of a company during specific period under the three activity.
- operating activity
 - investing activity
 - financing activity.

There are two method of preparing the cash flow statement.

- Direct method:- In the direct method, the major heads of cash inflows and outflows are to be considered.
- Indirect method:- Indirect methods of ascertaining cash flows from operating activity begins with the amount of net profit / loss.

Classification of Activities:-

Cash flow activities are to be classified into three categories.

- operating
- investing
- financing

• Cash flow from Operating Activity:-

Operating activity are the activity that comprise of the primarily ^{activity} of an enterprises during an accounting period. for example:-

For a garments, operating activities include procurement of raw material, sale of garment, incurrence of manufacturing expenses etc.

CASH INFLOWS:- Cash receipts from sale of goods and services

CASH OUTFLOWS:- Cash payments to suppliers for goods and services -

CASH Flow from Investing Activity :-

Cash flow from Investing activities includes the movement in cash flows owing to the purchase and sale of assets. It relates to purchase and sale of long - term assets or fixed assets such as machinery, furniture, land and building etc.

CASH INFLOW :- Cash receipt from disposal of fixed assets.

CASH OUTFLOW :- Cash payment to acquire fixed assets.

CASH Flow from FINANCING ACTIVITY :-

It includes financing activities related to long term funds or capital of an enterprise. financing activity are activities that results in change in the size and composition of the owner's capital and borrowings of the enterprise. for ex:- cash proceeds from issue of equity shares, debentures, raising long - term loans, repayment of bank-loan etc.

CASH Inflow :- Cash Proceeds from issue of debentures, loans etc.

CASH Outflow :- Cash repayment of amounts borrowed

Ques:- How a business determine their Sale Price?

Ans:- A business determine their sale price according to some factors like:-

- Product Cost:- Product cost refers to the total of fixed costs, variable costs and semi variable cost incurred during the production, distribution and selling of the product.
- The Utility of Demand:- Consumers demand more units of a product when its price is low and vice-versa.
- Extent of Competition in the market:- The next important factor affects the price of a product is the nature and degree of competition in the market. A firm can fix any price for its product if the degree of competition is low.
- Government And legal Regulation:- The firms which have monopoly in the markets, usually charge high price for their product.
- Price objective:- Another important factor affecting the price of a product or services in the pricing objective.

Pricing objective of any business are:-

- Profit maximisation
- Obtaining market share leadership
- Surviving in a competitive market.
- Attaining product quality leadership

● Marketing Method Class - The various marketing method such as distribution system, quality of salesman, advertising, type of packaging, customer service etc.

Q4

Ans: There are various ways of setting prices :-

i) Cost - plus pricing :- The cost - plus pricing is the simplest pricing method, the firm calculates the costs of producing the product and add on a percentage (profit) to that price to give the selling price.

ii) Skimming or Skimming :- In most skimming, goods are sold at higher prices so that fewer sales are needed to break even. Selling a product at a high price, sacrifices high sales to gain a high profit.

iii) Limit Pricing :- A limit price is the price set by a monopolist to discourage economic entry into a market, and illegal in many countries.

iv) Loss Leader: A loss leader or leader is a product sold at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to extend its market share as a whole.