Face to Face Classes For

CA. FINAL

At Gurgaon

By CA. Mohit Arora

(ACA with More than 6 Years Experience of Teaching CA Final Students)

FINANCIAL REPORTING

(Accounts)

Start Date

23 – 11 – 2016

M,W,F: 7 to 9:30 A.M., Sunday 8 to 10A.M.

ADVANCED MANAGEMENT ACCOUNTING

(Costing & O.R.)

Start Date

24 – 11 – 2016

T,T,S: 7 to 9:30 A.M., Sunday 10 to 12 A.M.

Salient Features:

- **Direct face to face interaction with students, with Small Batch Size.**
- **100% Coverage of Syllabus prescribed by ICAI alongwith all Recent Amendments.**
- **Specially designed Modular format books having approximately 500 practical problems with solutions, all Concepts and Theory in a easy to understand manner, covering Study material, Past examination questions (upto May 2016), RTPs, and MTPs.**
- **A very good track record of passing %. Almost 100% of Mohit Sir's students got cleared in AMA & FR with Very Good Marks in past few attempts.**
- **AMA & FR Toppers in Gurgaon in past few attempts were Mohit Sir's Students.**
- **Regular assessment through tests.**
- **Availability for query discussion/ doubt clearing (Post Batch Completion till Examinations)**

For Enquiry and Registration Contact at

PUSHPDEEP

NM – 21, First Floor, Above E – Guru, Old DLF Colony Gurgaon

9953000574, 8586800664

SUCCESS STORIES

 CA. Jyoti Joon	Gurgaon Topper (CA Final May 2013) 82 Marks in AMA Highest in Gurgaon	Costing class by Mohit sir is best. He teaches in systematic and effective manner. He Clears concepts by explaining them deeply & by solving questions on every topic, which helps the students in scoring 80 plus in costing.
 CA. Ankit Singla	72 Marks in AMA Highest in Gurgaon (Nov. 2012)	Clearing both groups of CA Final in single sitting and scoring more than 70 in two subjects, specially 72 in Advanced Management Accounting was never so easy, but with a strong willpower and good guidance by Mohit sir and my parents has let it happen and today I am a qualified Chartered Accountant. Thanks a lot Sir.
 CA. Deepak Kumar	68 Marks in AMA Second Highest in Gurgaon (May 2012)	Preparing for CA Finals with my job responsibilities was quite a difficult task for me. Teaching techniques used by Mohit Sir helped me a lot in understanding and retaining the concepts. His helpful and motivating behaviour also became a force in achieving my goal.
 CMA. Dheer Ambawata	63 in AMA (EPM) And 70 in Financial Reporting (Dec. 2013)	Mohit Sir's style of teaching is Excellent. He is extremely friendly and motivating. Due to his continuous efforts and motivation I cleared my finals with good marks. Thanks to sir for his support and help.

STARS (FINAL)


CA Shruti Kohli
CA Md. Muzzammil
CA Khyati Joneja
CA Navita
CA Amitabh Pandey
CA. Jatin Garg
CA. Deepak Chutani
CA Surbhi Bhardwaj
CA Priyanka Goyal
CA Sarika Jain
CA. Shambhavi
CMA. Naveen Sehgal
CA. Narender Jain
CA. Charu Shridhar
CA. Gaurav Gera
CA. Gaurav Grover
CA. Puneet Agrawal
CA. Gaurav
CA. Kaushal Jain
CA. Surbhi Agrawal
CA Yukti Agarwal
CA Paresh Govil
CA. Ksitij Arora
CA. Neha Nihara
CA Deepti Garg
CMA Dheer Ambawat
CA Prashant Tiwari
CMA Neeraj Rathee
CA. Mukesh Parmar
CA. Gaurav Ahuja
CA. Naman Garg
CA. Priyanshi Chaturvedi
CA. Anshul Gautam
CA. Sakshi Gambhir
CA. Varun Jain
CA. Suvidha Gupta
CA. Naresh Gautam
CA. Ashish Anand
CMA Preeti Yadav
Next. . You

SUGGESTED SOLUTIONS TO AMA

CA FINAL NOVEMBER 2016

SOLUTION: 1 (a)

Market Size Variance =

Budgeted Market Share % { Budgeted Industry Sales Quantity – Actual Industry Sales Quantity } Budgeted Contribution P.U.

OR

Growth in Sales Volume due to Increase in Market Size X Increase in Contribution P.U.

= [4,00,000 X 3%] X [1,40,000 ÷ 20,000] = 12,000 X 7.00 = Rs.84,000 F

Market Share Variance =

Actual Industry Sales Quantity { Budgeted Market Share % – Actual Market Share % } Budgeted Contribution P.U.

OR

Growth in Sales Volume due to Increase in Market Share X Increase in Contribution P.U.

= [(4,20,000 – 4,00,000) – 12,000] X [1,40,000 ÷ 20,000] = 8,000 X 7.00 = Rs.56,000 F

Effect of Product Differentiation = Market Size Variance + Price Recovery Variance

= 56,000 + 1,64,000 = Rs.2,20,000 F

STATEMENT SHOWING RECONCILIATION BETWEEN BUDGETED PROFIT AND ACTUAL PROFIT

Budgeted Profit	10,80,000
Market Size Variance	84,000 F
Product Differentiation Variance	2,20,000 F
Productivity Variance	58,000 F
Actual Profit	14,42,000

SOLUTION: 1 (b)

S. No.	Name	Examples	Relevant or Irrelevant
(i)	Sunk Cost	R & D, License Fee Paid	Irrelevant
(ii)	Opportunity Cost	Contribution Forgone	Relevant
(iii)	Out of Pocket Cost	Materials Purchased, Wages Paid	Relevant
(iv)	Differential Cost	Any Cost Like COGS, Change in Fixed Cost	Relevant
(v)	Notional Cost	Interest on Capital Employed	Relevant

SOLUTION: 1 (c)

Shut down point = [(Avoidable Fixed Cost – Shut down Cost) ÷ Contribution per unit]

= [(3,50,000 – 1,30,000) – 15,000] ÷ (8 – 75%)]

= [(2,05,000) ÷ 2] = 1,02,500 Units

Total Capacity = (95,000 ÷ 80) X 100 = 1,18,750 Units

% Capacity Utilization at Shut Down Point = [1,02,500 ÷ 1,18,750] X 100 = 86.32%

SOLUTION: 1 (d)

Table showing learning effect @ 80% and 90%

Units	LCR 80%			LCR 90%		
	A.T. p.u	T. Time	M. Time	A.T. p.u	T. Time	M. Time
1	600	600	600	600	600	600
2	480	960	360	540	1080	480

Time required to produce Second Machine:

(i) At 80% Learning Rate = 360 Hours

(ii) At 90% Learning Rate = 480 Hours

Since it can be observed from the above, marginal time required by second unit is lesser at 80% learning rate so this rate shows faster learning.

SOLUTION: 2 (a)

(i) STATEMENT SHOWING ACTIVITIES, COSTS, COST DRIVERS & COST/ DRIVER

Activity	Cost pool (in ₹)	Cost Driver	Cost driver volume/ year	Cost/ Driver
Production line Cost	23,10,00,000	Machine hours	60,000	3,850 per Hour
Transportation Cost:				
Deliveries Related	5,40,00,000	No. of Deliveries	640	84,375 per Delivery
Distance Related	3,60,00,000	Kms. Travelled	2,25,000	160 per Km.

COMPUTATION OF TOTAL COST & UNIT COST USING ABC

Particulars	Amount
Machining (₹3,850 X 6 X 1,000)	2,31,00,000
Transportation Cost:	
Deliveries Related [₹84,375 X (1,000 ÷ 10)]	84,37,500
Distance Related [₹160 X 50,000]	80,00,000
Total Cost	3,95,37,500
Quantity produced	1,000 cars
OH cost p.u.	₹ 39,537.50
Materials	4,75,000
Labour	2,50,000
Total cost p.u.	₹7,64,537.50

(ii) COMPUTATION OF TARGET COST P.U. & REQUIRED COST REDUCTION

Particulars	Amount
Target Sale Price	9,75,000.00
(–)Target Profit (25% on Selling Price)	2,43,750.00
Target Cost p.u.	₹7,31,250.00
Actual Cost p.u.	₹7,64,537.50
Difference (Required Cost Reduction)	₹33,287.50

SOLUTION: 2 (b)

Working Notes:

1. Statement showing contribution p.u. –

Particulars	Per Kg. of product		
	5 – 10 – 5	5 – 5 – 10	20 – 5 – 10
Selling Price (P)	32.60	34.80	36.00
Costs:			
Materials: A	3.20 (1 X 5% X 64)	3.20 (1 X 5% X 64)	12.80 (1 X 20% X 64)
B	1.60 (1 X 10% X 16)	0.80 (1 X 5% X 16)	0.80 (1 X 5% X 16)
C	2.00 (1 X 5% X 40)	4.00 (1 X 10% X 40)	4.00 (1 X 10% X 40)
Inert Ingredients	12.80 [1 X (100 – 5 – 10 – 5)% X 16	12.80 [1 X (100 – 5 – 5 – 10)% X 16	10.40 [1 X (100 – 20 – 5 – 10)% X 16
Cost (Q)	19.60	20.80	28
Profit (P) – (Q)	13.00	14.00	8.00s

Now Let the quantity of products to be produced are:

$5 – 10 – 5 = x_1$, $5 – 5 – 10 = x_2$, $20 – 5 – 10 = x_3$, respectively

Now the problem will be:

Maximize profit (Z) = $13x_1 + 14x_2 + 8x_3$ (W. Note)

Subject to:

$0.05x_1 + 0.10 x_2 + 0.20 x_3 \leq 100$ (Materials A availability)

$0.10x_1 + 0.05 x_2 + 0.05x_3 \leq 180$ (Materials B availability)

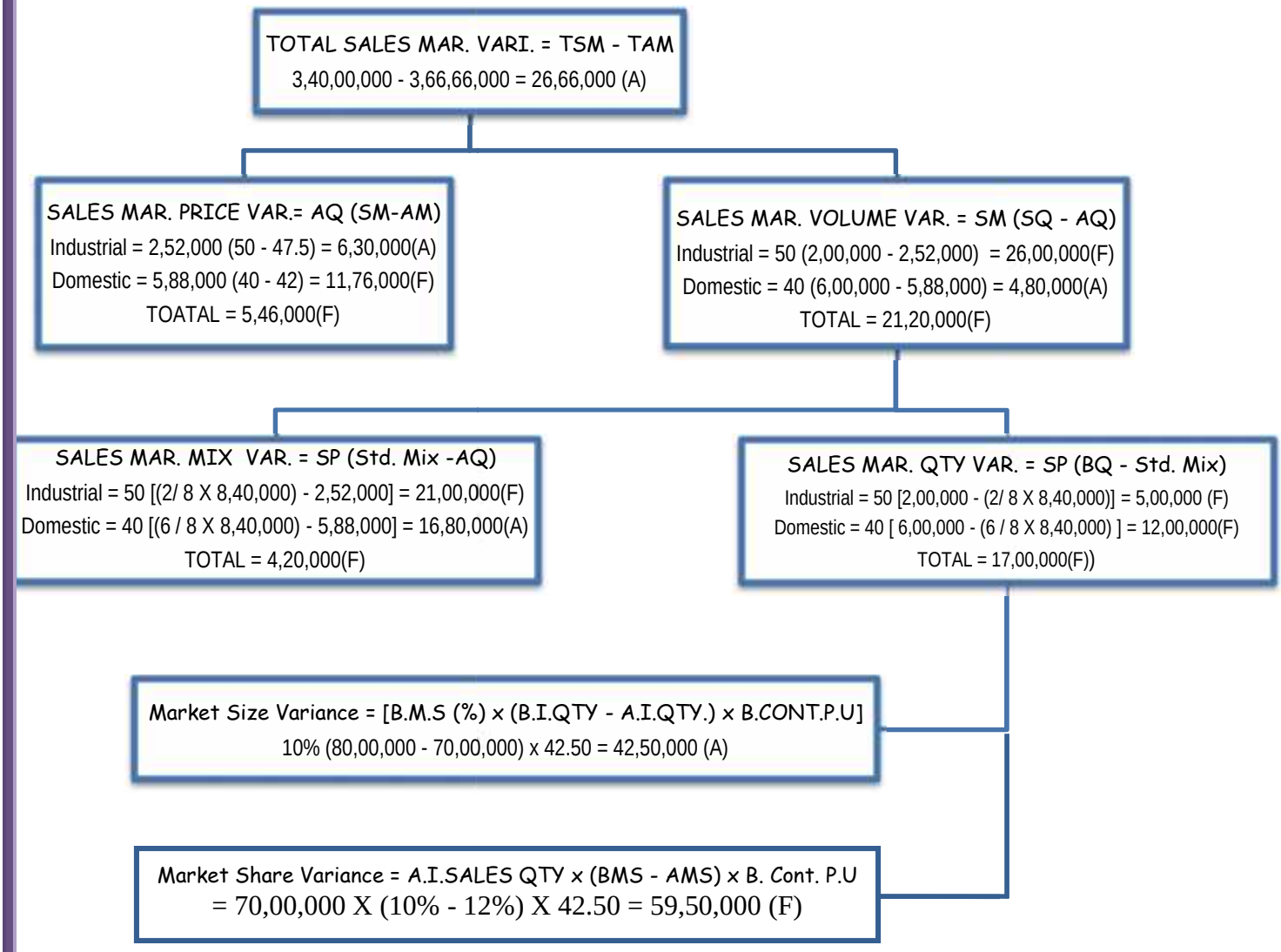
$0.05x_1 + 0.10x_2 + 0.10x_3 \leq 120$ (Materials C availability)

$x_3 \leq 30$ (Maximum Capacity Restriction)

Where:

$x_1, x_2, x_3 \geq 0$

SOLUTION: 3 (a)



Workings:

(i)

Particulars	Standard Margin per unit	Actual Margin per unit
Industrial	50 (1,00,00,000 ÷ 2,00,000)	47.50 (1,19,70,000 ÷ 2,52,000)
Domestic	40 (2,40,00,000 ÷ 6,00,000)	42 (2,46,96,000 ÷ 5,88,000)

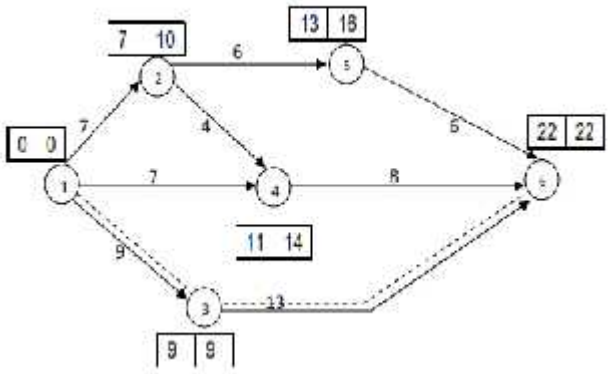
(ii) Average Budgeted Contribution p.u. = (3,40,00,000 ÷ 8,00,000) = 42.50

(iii) Budgeted Market Share % = [(8,00,000 ÷ 80,00,000) X 100] = 10%

(iv) Actual Market Share % = [(8,40,000 ÷ 70,00,000) X 100 = 12%

SOLUTION: 3 (b)

Network Diagram



Various Computations:

Activity	N T	C T	ΔT	ΔC/ ΔT
1 – 2	7	5	2	90
1 – 3	9	5	4	100
1 – 4	7	4	3	40
2 – 4	4	4	0	-
2 – 5	6	4	2	50
3 – 6	13	9	4	210
4 – 6	8	5	3	60
5 – 6	6	6	0	-
Total				

Normal Duration = 22 Days

Total Cost of the project = Direct Cost + Indirect Cost + Penalty Cost

= 6,000 + (150 X 22) + (80 X 3) = 6,000 + 3,300 + 240 = ₹ 9,540

Crashing Schedule for reducing project duration:

Actions	Impact on			
	D/ Cost	I/ Cost	Penalty	T/ Cost
Crash Activity (1 – 3) by 3 days	+ 300	– 450	– 240	– 390
Total cost	+ 300	– 450	– 240	– 390

Table showing various paths:

Paths	N. Days	Min. Days
1 – 2 – 5 – 6	19/ 19*	15 *
1 – 2 – 4 – 6	19/ 19*	14
1 – 4 – 6	15/ 15	9
1 – 3 – 6	22*/ 19*	14

* indicates critical path

Optimum Duration = 19 Hours.

Minimum Cost = 9,540 – 390 = ₹ 9,150

SOLUTION: 4 (a)

STATEMENT SHOWING VARIABLE COST PER UNIT AND RANKING:

Particulars	P	Q	R	S
Direct material	10.08	13.20	30.48	24.96
Direct wages	4.08	4.08	6.72	6.36
Direct expenses at ₹1.20 per machine hour	1.44	1.44	2.40	2.16
Total Variable Cost per unit (A)	15.60	18.72	39.60	33.48
Market price per unit (B)	21.36	24.00	48.00	N/A
Extra Cost per unit (B) – (A) = (C)	5.76	5.28	8.40	N/A
Machine Hours p.u (D. Exp. ÷ 1.20) (D)	1.2	1.2	2	1.8
Extra Cost per Hour (C) ÷ (D)	4.80	4.40	4.20	N/A
Ranking	II	III	IV	I

PRODUCTION SCHEDULE AS PER RANKING

Particulars	P	Q	R (B.F.)	S	Total
Production (Units)	1,20,000	1,86,000	1,34,800	99,000	-
Production hours	1,44.000	2 ,23,200	2,69,600	1,78,200	8,15,000

So remaining 36,200 Units (1,71,000 – 1,34,800) of R Should be Purchased from Outside

STATEMENT SHOWING CONTRIBUTION AND PROFIT

Particulars	P	Q	R		S	Total
Selling Price P. U.	23.88	28.68	55.08	55.08	47.88	
Less: Variable Cost P.U.	15.60	18.72	39.60	48.00	33.48	
Contribution P.U. (A)	8.28	9.96	15.48	7.08	14.40	
Sale (Units) (B)	1,20,000	1,86,000	1,34,800	36,200	99,000	
Total Contribution (A) X (B)	9,93,600	18,52,560	20,86,704	2,56,296	14,25,600	66,14,760
Less: Fixed Cost						46,84,000
Profit						19,30,760

SOLUTION: 4 (b)

Random No. Table (Demand):

Demand	Probability	Cum. Prob.	Range
0	0.05	0.05	00 – 04
1	0.10	0.15	05 – 14
2	0.30	0.45	15 – 44
3	0.45	0.90	45 – 89
4	0.10	1.00	90 – 99

Simulation Table: (Option A)

Day	R. No.	Demand	O. stock	Ord. Outstanding	Ord. placed	Received	Sales	C. stock
1	89	3	8	6	-	-	3	5
2	34	2	5	6	-	6	2	9
3	78	3	9	-	-	-	3	6
4	63	3	6	-	5	-	3	3
5	61	3	3	5	-	-	3	0
6	81	3	0	5	5	5	3	2
7	39	2	2	6	5	-	2	0
8	16	2	0	10	-	5	2	3
9	13	1	3	5	-	5	1	7
10	73	3	7	-	5	-	3	4
	Total							39

Ordering cost = 4 X 100 = ₹400
Carrying cost = 39 X 5 = ₹195
Total cost = 400 + 195 = ₹595

Simulation Table: (Option B)

Day	R. No.	Demand	O. stock	Ord. Outstanding	Ord. placed	Received	Sales	C. stock
1	89	3	8	6	-	-	3	5
2	34	2	5	6	-	6	2	9
3	78	3	9	-	-	-	3	6
4	63	3	6	-	8	-	3	3
5	61	3	3	8	-	-	3	0
6	81	3	0	8	-	8	3	5
7	39	2	5	-	8	-	2	3
8	16	2	3	8	-	-	2	1
9	13	1	1	8	-	8	1	8
10	73	3	8	-	-	-	3	5
	Total							45

Ordering cost = 2 X 100 = ₹200
Carrying cost = 45 X 5 = ₹225
Total cost = 200 + 225 = ₹4250.

On the basis of cost we can say option B is good.

SOLUTION: 5 (a)

(i) STATEMENT SHOWING BUDGETED PROFIT:

Profit Centre	Estimated Revenue		Contribution	
	%	Amount (Rs lakhs)	%	Amount (Rs lakhs)
Accommodation	45	27.00	70	18.90
Restaurant	35	21.00	20	4.20
Bar	20	12.00	30	3.60
Total	100	60.00		26.70
Fixed Cost				9.15
Gross profit				17.55

(ii) STATEMENT SHOWING REVISED CONTRIBUTION PER PACKAGE:

Profit Centre	Estimated Revenue	Contribution	
	Amount	%	Amount
Accommodation	500	70	350
Restaurant	200	20	40
Bar	200	30	60
Total	900		450

Gross Profit required = Rs. 17.55 + 20% = Rs 21.06 lakhs
Additional contribution required = Rs (21.06 – 17.55) = Rs 3.51 lakhs
No of two-nights offer at reduced price to be sold = 3.51 lakhs / 450 = 780 Packages p.a or
780 ÷ 39 = 20 Packages per week

(iii) We assume that contribution % of revenue will remain same after increase in price.
Contribution increase from restaurant & bar by price increase = [(21 X 7.5%) x 20%] + [(12 X 10%) X 30%]
= 0.315 Lakhs + Rs 0.36 Lakhs
= 0.675 Lakhs or Rs.67,500
Additional contribution required from accommodation = Rs (3.51 – 0.675) lakhs = Rs 2.835 lakhs
Required increase in revenue = Rs 2.835 / 70% = Rs 4.05 lakhs
Required percentage increase in rent = (4.05 / 27) X 100 = 15 %

SOLUTION: 5 (b)

STATEMENT SHOWING ALLOCATION OF MACHINE HOURS ON THE BASIS OF BOTTLENECK

Particulars	A	B	C	Total
Contribution p.u. (₹)	30	25	15	
Machine hours required p.u. Machine 2	15	3	6	
Contribution per hour	2	8.33	2.50	
Ranking	III	I	II	
Production (units)	200	500	500	
Machine Hours Machine 2	1,500 (B. Fig)	1,500	3,000	6,000

As Throughput Accounting Ratio is Maximum for Machine 2, so ranking will be based on Machine hours on Machine 2.

SOLUTION: 6 (a)

Cash Budget

Particulars	January	February	March	April	May	June
Opening Balance (A)	10,000	77,500	1,10,250	44,500	875	(2,125)
Collection from Sales						
Cash sales 25%	55,000	35,000	40,000	37,500	50,000	45,000
Credit Sales 25%	41,250	26,250	30,000	28,125	37,500	33,750
60% of Pms	90,000	99,000	63,000	72,000	67,500	90,000
15% of 2nd Pms	20,250	22,500	24,750	15,750	18,000	16,875
Total (B)	2,06,500	1,82,750	1,57,750	1,53,375	1,73,000	1,85,625
Payments –						
Purchase	1,12,000	1,28,000	1,20,000	1,60,000	1,44,000	96,000
Rent	2,000	2,000	2,000	2,000	2,000	2,000
Debenture Interest (3 Months)	-	-	7,500	-	-	7,500
Redemption of Debentures (20%)	-	-	-	-	-	40,000
Advance Tax	-	-	54,000	-	-	-
Office Cost	25,000	20,000	40,000	35,000	30,000	45,000
Total (C)	1,39,000	1,50,000	2,23,500	1,97,000	1,76,000	1,90,500
Closing Balance (A) + (B) – (C)	77,500	1,10,250	44,500	875	(2,125)	(7,000)

SOLUTION: 6 (b)

1. In this question, the solution is suggested by the clerk and we have to check the optimality of this solution, so here we can apply the steps required for optimality check on the solution given by clerk. First of all we need to check, is there any degeneracy in the solution suggested by the clerk?

Since no of Rows + No. of columns – 1 = No. of transportations (No degeneracy)

Matrix for optimality check is given below:

Market / Warehouse	I	II	III	IV	Ui
A	5 (4)	2 (12)	4 (1) +	3 (9) -	0
B	4 (6)	8 (9)	1 (15)	6 (6)	- 3
C	4 (7)	6 (1)	- 7	+ 5 (- 1)	3
Vj	1	2	4	3	

Since, there is one (-) Δij in the solution so solution provided by the clerk is not optimal and matrix after improvement will be as under:

2.

Market / Warehouse	I	II	III	IV	Ui
A	5 (3)	2 (12)	4 (2)	3 (8)	0
B	4 (5)	8 (9)	1 (15)	6 (6)	- 3
C	4 (7)	6 (2)	7 (1)	5 (1)	2
Vj	2	2	4	3	

There is no (-) Δij in the solution so this is final solution and resulting transportation schedule is given below:

Warehouse	Market	Units	Cost (₹)
A	II	12	24
A	III	2	8
A	IV	8	24
B	III	15	15
C	I	7	28
C	IV	1	5
Total			104

3. In this case we have to shift some units to Route C- II, from existing transportation schedule, and shifting is done by making a loop in the following matrix:

Market / Warehouse	I	II	III	IV
A	5 [3]	2 [12] -	4 [2]	3 [8] +
B	4 [5]	8 [9]	1 [15]	6 [6]
C	4 [7]	6 [6] +	7 [1]	5 [1] -

Change in transportation cost P.U.

C to II = +6
C to IV = -5
A to IV = +3
A to II = - 2
Net change = +2

As it is clear now there will be loss of Rs.2 P.U. by taking Route C – II. So carrier of this route should offer discount of at least Rs.2 p.u.

SOLUTION: 7 (a)

(i) Standard Hours Produced

	Product X	Product Y	Total
Output (units)	1,000	600	
Hours per unit	5	10	
Standard hours	5,000	6,000	11,000

(ii) Actual Hours Worked = 50 workers X 25 days X 8 hours = 10,000

(iii) Budgeted Hours Per Month = 1,02,000/12 = 8,500

$$\text{Capacity Ratio} = \frac{\text{Actual hours}}{\text{Budgeted hours}} \times 100 = \frac{10,000}{8,500} \times 100 = 117.65\ \%$$

$$\text{Efficiency Ratio} = \frac{\text{Standard Hours Produced}}{\text{Actual hours}} \times 100 = \frac{11,000}{10,000} \times 100 = 110\%$$

$$\text{Activity Ratio} = \frac{\text{Standard Hours Produced}}{\text{Budget hours}} \times 100 = \frac{11,000}{8,500} \times 100 = 129.41\%$$

Relationship: Activity Ratio = Efficiency Ratio × Capacity Ratio

OR $129.41 = \frac{110 \times 117.65}{100}$

SOLUTION: 7 (b)

LIMITATIONS OF UNIFORM COSTING

1. Common principles and procedures: Uniform costing requires lying down of uniform principles and procedures. Since the individual circumstances of each concern varies to a great extent, bringing uniformity in procedures, practices, etc. poses serious problems.
2. Lack of trust and confidence: The member units particularly when independently managed may not have the feeling of mutual trust and confidence. Thus, the system may not operate successfully.
3. Non disclosure of technical and cost information: The member concerns usually do not provide total information regarding cost and technical procedures. Thus the system may not prove to be a success.
4. Rigidity: Flexibility of approach is difficult to be maintained. The common prices fixed may not meet the requirements of all and sundry.
5. Monopoly: Member units may fix up monopoly prices and thus exploit the consumers. Thus, in a bid to avoid cut throat competition, cut throat prices from the point of view of consumers may be charged.
6. High cost: A comparatively small concern may find the system expensive since the system to be adopted by all members units has to be uniform irrespective of their size.

Distortion of costs: Cost computed under uniform costing system may not be representative of all concerns. Thus the cost may be distorted and may not give a correct picture in specified

SOLUTION: 7 (c)

It has been defined as: an all-encompassing manufacturing management philosophy that includes a consistent set of principles, procedures, and techniques where every action is evaluated in terms of the common global goal of the organization.

Principles Associated With Synchronous Manufacturing

1. Do not focus on balance idle capacities; focus on synchronizing the production flow.
2. The marginal value of time at a bottleneck resource is equal to the throughput rate of the products processed by the bottleneck.
3. The marginal value of time at a non-bottleneck resource is negligible.
4. The level of utilization of a non-bottleneck resource is controlled by other constraints within the system.
5. Resources must be utilized, not simply activated.
6. A transfer batch may not, and many times should not, be equal to the process batch.
7. A process batch should be variable both along its route and over time.

SOLUTION: 7 (d)

Usefulness of Pareto Analysis: Pareto analysis is useful to:

1. Prioritize problems, goals and objectives. Identify root causes
2. Select and define key quality improvement programs. Select key customer relations and service programs. Select key employee relations improvement programs.
3. Select and define key performance improvement programs. Maximize research and product development time.

4. Verify operating procedures and manufacturing processes
5. Sales/distribution of Products or services.
6. Allocate physical, financial and human resources.

SOLUTION: 7 (e)

Skimming Pricing

It is a policy of high prices during the early period of a product's existence and in the later years the prices are gradually reduced. This can be synchronized with high promotional expenditure and in the latter years the prices can be gradually reduced. It is an attempt to exploit those segments of the market that are relatively insensitive to price changes. For example, high initial price may be charged to take advantage of the novelty appeal of a new product when the demand is initially inelastic. It offers a safeguard against unexpected future increase in costs, or a large fall in demand after the novelty appeal has declined. This policy should not be adopted when the substitutes are already available in the market.

Penetration Pricing

This pricing policy is in favour of using a low price as the principal instrument for penetrating mass markets early. Penetration pricing means a price suitable for penetrating mass market as quickly as possible through lower price offers. This method is used for pricing a new product and to popularize it initially. Profits may not be earned in the initial stages. However, prices may be increased as and when the product is established and its demand picks up. The low price policy is introduced for the sake of long-term survival and profitability and hence it has to receive careful consideration before implementation. It needs an analysis of the scope for market expansion and hence considerable amount of research and forecasting is necessary before determining the price. Penetrating pricing policy can also be adopted at any stage of the product life cycle for products whose market is approached with low initial price. The use of this policy by the existing concerns will discourage the new concerns to enter the market. (Predatory Pricing)

THE END

Best Of Luck!