CHAPTER 1: Introduction

1.1 Abstract

This Document is going to be covering MD SWEETS, MD Sweets was started by Faisal's grandfather, Taj Din, in 1948 after he migrated from India. His shop offered traditional sweetmeats in a small location on Fleming Road inside the older part of the city of Lahore. Faisal had intended to complete his MBA from a private business school but his father got Parkinson's disease and Faisal had to leave after 15 months into the MBA programmed to manage the business. Faisal had certain differences with his father regarding how the business should be run. He was eager to improve the management and introduce professional managers and systems. Following Taj Din's demise in 1985, the management of the venture passed to his son Mohammad Farooq who had been helping his father for several years. With the general populace of Lahore moving into new suburbs, and because of customer acclaim of its products, MD SWEETS opened three more stores over the next five years. All the shop premises were company owned, mainly to prevent commercial property owners from dictating terms to MD SWEETS.

1.2 Background

MD Sweets was started by Faisal's grandfather, Taj Din, in 1948 after he migrated from India. His shop offered traditional sweetmeats in a small location on Fleming Road inside the older part of the city of Lahore. Following Taj Din's demise in 1985, the management of the venture passed to his son Mohammad Farooq who had been helping his father for several years. With the general populace of Lahore moving into new suburbs, and because of customer acclaim of its products, MD SWEETS opened three more stores over the next five years. All the shop premises were company owned, mainly to prevent commercial property owners from dictating terms to MD SWEETS. All mithai was prepared at the company owned factory at Waris Road, about five minutes' drive from the Jail Road store. Waris Road also served as company Headquarters. Faisal had intended to complete his MBA from a private business school but his father got Parkinson's disease and Faisal had to leave after 15 months into the MBA programmed to manage the business. Faisal had certain differences with his father regarding how the business should be run. He was eager to improve the management and introduce professional managers and systems. He had also taken keen interest in computerizing their record keeping and wanted all the stores to be networked with the factory and head 01-504-2002-12 office. Faisal felt that the company

CHAPTER 2: Problem Identification & Solution

2.1 Problem Identification

The problem that MD SWEETS was facing is that they were not able to identify the cost and the costing method which method of costing should apply. So that’s way they do not understand to manage the cost of their products on daily basis. If they know the total cost of the product which they have to bear in every single unit and they have to record them so at the end it is easy to understand to solving the costing issue.

2.2 Solution

We will use variable costing to solve this issue.

Variable costs include a manufacturing company's costs of raw materials and packaging—or a retail company's credit card transaction fees or shipping expenses, which rise or fall with sales. A variable cost can be contrasted with a fixed cost.

What is the total cost of the products he has to bear on every unit produced?

2.2.1 Advantages of Variable Costing

The following are the advantages of variable costing:

- **Planning and Control -** In financial planning, managers need to estimate future sales, future production levels, future costs, and so on. Forecasts determine the production schedule, which determines the amount of spending required for raw materials, direct labor, and variable manufacturing overhead. It is a useful point for MD SWEETS to use variable costs.
- **Managerial Decision Making -** Therefore, projection of future costs and revenues for different activity levels and the use of relevant cost decision-making techniques are facilitated and highlighted in variable costing and not in absorption costing. This fact is important for the MD SWEETS in future.
- **Inventory Changes do not Affect Profit -** Profit in variable costing is not affected by changes in inventory so this is good point for MD SWEETS if they change their inventory, it’s not effects on their profit if they use variable costing.
- **Customer Profitability Analysis -** Customer profitability analysis is an application of segmented reporting in which a customer group is treated as a segment. This analysis may be done using variable costing to determine a customer contribution margin. So, this is an important factor for MD SWEETS to use variable costing.

	Total	**Per Unit Cost**	**Units**	**Net Income Statements**
Sale (250) * (10,000)	2,500,000	250	10,000 * (1+1.92%) = 10,192	10,192 * 250 = 2,548,000
Less: Production cost (50*10,000)	(500,000)	50		10,192 * 50 = (509,600)
Less: Variable Selling & Admin Expenses 100000 + 25000 (1250000 * 2%)	(125000)	125,000 / 10,000 = 12.5		10,192 * 12.5 = (127,400)
Contribution Margin	1,875,000	187.5		1,911,000
Less: Fixed MOH Expenses	(500,000)	500,000 / 10,000 = 50		(500,000)
Less: Fixed Selling & Admin Expenses	(400000)	400,000 / 10,000 = 40		(400,000)
Net Operating Income	975,000	97.5		1,011,000