**Strategic Cost Management**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for April 2025 Examination**

**1. New Era Corp., a mid-sized manufacturing company, has been struggling with inefficiencies in its budget allocations. For years, the company relied on incremental budgeting, where previous year’s expenses were carried forward with minor adjustments. Over time, this led to certain departments hoarding funds they didn’t necessarily need, while other critical areas remained underfunded.**

**Facing increasing competition and pressure to improve profitability, the management decided to overhaul their budgeting process. They proposed shifting to a zero-based budgeting (ZBB) system, where every expense would have to be justified from scratch for each new budgeting cycle. The finance team welcomed the opportunity to streamline spending but raised concerns about the time and resources required to implement ZBB. Department heads expressed mixed reactions—some saw it as a chance to highlight their real needs, while others worried about the effort involved in preparing detailed justifications for every cost. After a six-month trial run with ZBB, the company observed some significant changes. Now, the management must decide whether to fully adopt ZBB across the organization or return to the traditional budgeting approach. What are the advantages and disadvantages of adopting a zero-based budgeting system as observed in this case?**

**Answer:**

**Introduction:**

New Era Corp.’s shift from incremental budgeting to Zero-Based Budgeting (ZBB) was driven by the need to eliminate inefficiencies and allocate funds more strategically. Unlike traditional methods, ZBB requires every expense to be justified, ensuring optimal resource utilization. The trial run revealed both benefits and challenges—while some departments appreciated the opportunity to secure necessary funds, others found the process time-consuming. The finance team noted improved cost control but also highlighted the effort required for implementation. Now, management must weigh the advantages of cost efficiency and transparency against the challenges of complexity and resource intensity before making a final decision.

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**2. Mindset Ltd., a manufacturing company producing Product A and Product B, is facing challenges in accurately allocating overhead costs using the traditional costing system. To address this, the management has decided to implement an Activity-Based Costing (ABC) system to ensure a fair allocation of costs and better decision-making. The following data is available:**

**Overhead Costs and Activity Drivers:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Activity** | **Total Overhead Cost** | **Activity Driver** | **Total Activity** |
| **Machine Setup** | **₹50,000** | **Number of setups** | **100 setups** |
| **Quality Inspection** | **₹60,000** | **Number of inspections** | **120 inspections** |
| **Material Handling** | **₹40,000** | **Number of material movements** | **80 movements** |

**Activity Driver Usage by Products:**

|  |  |  |
| --- | --- | --- |
| **Activity Driver** | **Product A** | **Product B** |
| **Number of setups** | **60 setups** | **40 setups** |
| **Number of inspections** | **80 inspections** | **40 inspections** |
| **Number of material movements** | **50 movements** | **30 movements** |

**Allocate overhead costs to Product A and Product B using activity-based costing. Calculate the overhead cost per unit for each product if units produced of product A are 1000 and that of product B are 500. What insights do the results share?**

**Answer:**

**Introduction:**

Mindset Ltd. is transitioning from a traditional costing system to Activity-Based Costing (ABC) to achieve more accurate overhead allocation for Product A and Product B. The traditional method often leads to cost distortions, whereas ABC assigns costs based on actual resource consumption using activity drivers such as machine setups, quality inspections, and material handling. By distributing overhead costs according to their respective usage, the company can better understand the true cost per unit of each product. This analysis will help improve pricing, cost control, and profitability. The insights derived will guide management in making more informed decisions regarding resource allocation, process efficiency, and strategic product focus.

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**3. Delta Ltd. is a mid-sized manufacturing company specializing in high-quality kitchen appliances. Their flagship product, the ‘SmartCook Pro’, is gaining popularity, but the management team is concerned about fluctuating profit margins due to rising raw material costs and competitive pricing pressures.**

**To address these challenges, DEF Ltd. wants to use Cost-Volume-Profit (CVP) analysis to better understand the relationship between their costs, production volume, and profit. They need insights into the breakeven point, the sales volume required to meet a target profit, and how changes in variable costs or selling prices might impact their financial performance. The company has set a selling price of ₹2,000 per unit, incurs variable costs of ₹1,200 per unit, and has total fixed costs of ₹8,00,000.**

**The management also plans to introduce a discount strategy, reducing the selling price to ₹1,800 per unit to boost sales, and they wish to evaluate its impact on profitability. Using CVP analysis, they aim to make informed decisions on production levels and pricing strategies.**

**a. Based on the current pricing strategy, calculate the breakeven point in units. What is break-even analysis and what does these number of units signify?**

**Answer:**

**Introduction:**

Delta Ltd., a kitchen appliance manufacturer, is facing challenges in maintaining profit margins due to rising raw material costs and competitive pricing. To address this, the company is implementing Cost-Volume-Profit (CVP) analysis to determine its breakeven point, the sales volume needed to achieve target profits, and the impact of pricing changes. With a selling price of ₹2,000 per unit, variable cost of ₹1,200 per unit, and fixed costs of ₹8,00,000, the breakeven analysis will help optimize pricing and production strategies for sustainable profitability.

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**b. If Delta Ltd. reduces the selling price to ₹1,800 per unit to achieve a target profit of ₹4,00,000, calculate the number of units they need to sell?**

**Answer:**

**Introduction:**

Delta Ltd., a manufacturer of high-quality kitchen appliances, is analyzing its pricing strategy using Cost-Volume-Profit (CVP) analysis to maintain profitability amidst rising raw material costs and competitive pressures. The company plans to reduce the selling price of its flagship product, SmartCook Pro, from ₹2,000 to ₹1,800 per unit to increase sales. However, they need to determine the number of units required to achieve a target profit of ₹4,00,000 under the new pricing strategy. By calculating the revised breakeven sales volume, the company aims to make strategic pricing decisions to sustain growth and improve financial performance.

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