**Strategic Cost Management**

**NMIMS Solved Assignments for December 2024**

**1. A leading business school is planning to launch a new post-graduate course in Data Science and Analytics. The course is designed to cater to the growing demand for skilled professionals in this field. The school's administration is tasked with determining the optimal pricing strategy for the course.**

**The school has conducted market research to understand the demand for the course and the pricing sensitivity of potential students. The research indicates that there is a strong demand for the course, and students are willing to pay a premium for a high-quality education from a reputable institution. However, students are also price-conscious, and the school needs to balance the demand for the course with the need to generate revenue.**

**The school's administration is considering two pricing methods: cost-plus pricing and break-even pricing. Explain the advantages and disadvantages of cost-plus pricing and break-even pricing in the context of this situation.**

**Answer:**

**Introduction:**

As leading business schools strive to adapt to the evolving job market, the introduction of new programs like a post-graduate course in Data Science and Analytics has become essential. This course aims to meet the growing demand for skilled professionals in a field that combines data analysis and statistical expertise. The school's administration faces the critical challenge of establishing an optimal pricing strategy that balances the strong demand for the course with the need to generate sufficient revenue. To achieve this, they are exploring two common pricing methods: cost-plus pricing and break-even pricing. Understanding the advantages and disadvantages of each approach will help the administration make an informed decision that aligns with their financial goals while attracting prospective students.

**This is partially solved sample answer**

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**2. The management of a retail company, "The Retail Haven," carries a notion that it has been experiencing declining profits despite a steady increase in sales. The company's management is concerned about the company's financial health and has tasked you with conducting a ratio analysis to identify potential areas of concern**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Year 1** | **Year 2** |
| **Sales** | **₹1,00,000** | **₹1,20,000** |
| **Cost of Goods Sold** | **₹70,000** | **₹80,000** |
| **Gross Profit** | **₹30,000** | **₹40,000** |
| **Operating Expenses** | **₹20,000** | **₹25,000** |
| **Operating Income** | **₹10,000** | **₹15,000** |
| **Interest Expense** | **₹2,000** | **₹2,500** |
| **Net Income** | **₹8,000** | **₹12,500** |
| **Total Assets** | **₹50,000** | **₹60,000** |
| **Total Liabilities** | **₹20,000** | **₹25,000** |
| **Shareholders' Equity** | **₹30,000** | **₹35,000** |

**a) You’re required to calculate the following financial ratios for both years:**

**i. Gross Profit Margin Ratio**

**ii. Net Profit Margin Ratio**

**iii. Return on Assets Ratio (ignore taking average for balance sheet number)**

**iv. Return on Equity Ratio (ignore taking average for balance sheet number)**

**b) Analyze the trends in these ratios and comment if the management is correct.**

**Answer:**

**Introduction:**

In today’s competitive retail environment, profitability is crucial for sustained success. "The Retail Haven" has observed a troubling trend of declining profits despite a steady increase in sales, raising concerns about its financial health. This situation necessitates a comprehensive financial ratio analysis to identify potential areas of concern and evaluate the company's operational efficiency. Financial ratios serve as vital tools for assessing profitability, operational performance, and financial stability. By analyzing key ratios, such as Gross Profit Margin, Net Profit Margin, Return on Assets, and Return on Equity, management can gain valuable insights into the company’s performance over the two fiscal years. This analysis will help determine whether the company's declining profits are justified or indicative of underlying financial issues that need addressing.

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**3. August Ltd. is a medium-sized enterprise operating in the consumer electronics industry. The company has been in business for several years and has a reputation for producing high-quality products. However, the company has been facing increasing competition from both domestic and international rivals. To maintain its market position and drive growth, the company is considering launching a new product.**

**The new product is a cutting-edge gadget that is expected to appeal to a wide range of consumers. The company believes that the product has the potential to become a major success and significantly boost its revenue and profitability. However, before launching the product, the company needs to conduct a thorough analysis to assess its financial viability and potential risks. It is considering launching a new product. The estimated fixed costs for the product are ₹1,000,000 per year, and the variable cost per unit is ₹50. The expected selling price per unit is ₹100.**

**a) Calculate the break-even point in units and in rupees for the new product. If the company expects to sell 20,000 units of the product per year, what will be its profit or loss?**

**Answer:**

**Introduction:**

August Ltd., a well-established player in the consumer electronics sector, is exploring the launch of a new innovative gadget to enhance its market position amid rising competition. The company aims to assess the financial viability of this venture by calculating the break-even point and evaluating potential profits or losses based on estimated fixed and variable costs, alongside the expected selling price. This analysis is crucial for informed decision-making regarding the product's market introduction and anticipated financial outcomes.

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**b) Calculate the margin of safety in units and in rupees for the new product, assuming expected sales of 20,000 units per year. What does the margin of safety indicate about the product's profitability?**

**Answer:**

**Introduction:**

August Ltd. is contemplating the launch of a new consumer electronics gadget, believing it could enhance revenue and market competitiveness. To ensure a successful product introduction, the company needs to analyze the financial aspects, particularly the margin of safety. This metric will help determine how much sales can decline before the company reaches its break-even point, providing insights into the product's profitability and the potential risks associated with its market performance. A comprehensive understanding of the margin of safety is essential for strategic decision-making.

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