**Strategic Cost Management**

**1) With the following information, calculate: (10 Marks)**

**a) Contribution**

**b) PV Ratio**

**c) BE Ratio (in no. of units and value)**

**d) MOS at actual sales of Rs. 9, 00,000/-**

**e) Number of watches to be sold to get a profit of Rs. 18,000/-**

|  |  |  |
| --- | --- | --- |
| **Sale Price**  | **Per unit**  | **10,000**  |
| **Raw Material**  | **Per unit**  | **5,000**  |
| **Power**  | **Per unit**  | **500**  |
| **Factory Wages (variable)**  | **Per unit**  | **1,000**  |
| **Rent**  | **Per month**  | **80,000**  |
| **Salaries**  | **Per Month**  | **1,00,000**  |
| **Telecom and Printing**  | **Per month**  | **45,000**  |
| **Travel**  | **Per Month**  | **25,000**  |

**Ans:**

To calculate the requested values, we want to determine the contribution, PV ratio, BE ratio, MOS, and several gadgets to be sold to reap a target income.

In the context of fee accounting and financial evaluation, contribution refers to the extra income over variable costs associated with producing or selling a product or providing a carrier. It represents the portion of sales that contributes towards covering constant costs and generating profit.

Mathematically, It is only half solved

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**2) Pritam owns a glass factory and is in the business of making cups and glasses. He gets an order to supply 20,000 nos. of a specific type of glass. The variable cost to make the glass totals to about Rs. 45 per glass and the total fixed cost is Rs. 3, 00,000.**

**How should Pritam price his glasses under?**

**a. Cost plus Pricing to earn a profit of 10%**

**b. Variable Cost Plus contribution to earn a contribution margin of 20%.**

**Compare the results and discuss under what situation each type will be beneficial.**

**Which of the two methods will Pritam choose if he has surplus capacity to manufacture the glasses without incurring any additional fixed cost? (10 Marks)**

**Ans:**

**Introduction:**

Effective pricing is critical in the strategic management of groups, impacting profitability, market share, and overall sustainability. Pritam, the owner of a glass factory focusing on cups and glasses, faces a pivotal selection regarding the pricing approach for an order of 20,000 glasses. This scenario allows delving into the concepts and programs of two prominent pricing strategies: cost Plus Pricing and Variable value Plus Contribution Pricing.

Pricing decisions play a pivotal role in determining the success of a business, affecting both short-term economic goals

**3)**

**a) Divya went to Dhanalaxmi Bank to get a loan for her Business Needs. As the Loan approving officer of the Bank, which ratios shall you look at to establish that it is safe to give Divya a loan, considering her capacity to repay the loan back along with the interest? Explain any two ratios along with their formula.**

**Ans:**

**Introduction:**

Extending loans is a vital aspect of banking, and it demands a thorough assessment of the borrower's economic fitness and potential to pay off. In the case of Divya seeking a loan from Dhanalaxmi Bank for her business wishes, the loan approving officer wishes to analyze various financial ratios to assess the risk associated with the loan. This entails a comprehensive examination of Divya's financial statements and performance metrics to ensure she can repay the loan and

**b) With the following information, prepare the Budgeted Profit for the year for Company PQR Ltd.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  **UOM** |  **P** |  **Q**  |  **R**  |  **S**  |
| **No. of Units**  | **Nos.**  | **20**  | **30**  | **40**  | **100**  |
| **Sales Price**  | **Rs./Unit**  | **100**  | **50**  | **25**  | **45**  |
| **Variable Costs**  | **Rs./Unit**  | **40**  | **20**  | **5**  | **25**  |
| **Fixed Costs**  | **Rs.**  |  **200,000**  |

**In addition to the above, each unit has semi-variable expenses of power, which are Rs. 150,000 for all products put together and @ Rs. 10 per unit of production beyond it.**

**Ans:**

To calculate the Budgeted income for company PQR Ltd., we need to consider the income revenue, variable costs, constant charges, and semi-variable prices. Let us calculate the relevant values for every product (P, Q, R, S) and then decide the overall Budgeted profit.

1. **Sales Revenue:** Sales Revenue=No. of Units × Sales Price per Unit
2. **Total Variable Costs:** Variable Costs=No. of Units × Variable Cost per Unit
3. **Semi-Variable Expenses:** The fixed component is Rs. 150,000.

The variable component