**DESCRIPTIVE ANALYSIS**

1. There is a business saying, things don’t work out themselves, you must manage it or create circumstances to make it a success. Many startups end up wasting capital when their product doesn’t work due to lack of selling strategies. Product needs perfect strategizing of any situation, the management needs to allocate appropriate cost to function for the time being and it should comprehend the stance of the costs associated with the marketing, resource management and different **indirect costs** which conclude in improving the efficiency in the longer run.
2. Startups run out of money due to their poor planning. A lender only lends a startup when it has the perfect implementation of its business model and its forecasted operational activities. Startups need to plan according to the **concept of prudence,** they tend to make the lender over-expect their operations and return- which causes dilemma and they have to pay the lender back when he senses anything different from the forecasted idea and for further acquisitions or debt financing , the liquidity/debt management ratios are affected , their cash flows are negative , and they don’t even have sufficient capital to fund their operational activities and mostly banks give suitable debt on the ratios or the presence of cashflows and more preferable presence of free cash flows. Startups must do better risk-management and they need to work on minimizing the costs effectively as well as working on the marketing, quality, better supply and chain management in the beginning.
3. Your operational and financing activities fundamentally drive costs, and the resources as of their holding, procurement and effective allocation or usage for production drive costs. Operational activities such as the processes in between of supply and chain, which includes manufacturing, the protocol used for working at a site, incurring **direct cost.** Financing activities such as the interest associated with the debt and the opportunity cost or the valuation of the company/startup which is compromised while IPO (initial public offering) of shares.
4. Units cost is a basic concept to reflect every expense possible to calculate the profit, and then considering it per unit. It helps you to analyze and to forecast efficient methodology of minimizing your costs, when apportioned weightages of different costs in a single unit are reflected – it helps you to increase overall profitability which eventually improves your **different ratios**, and which increases the good will and relatively easier for the company to finance its activities.
5. Financing activities, operational activities, non-financing activities and any managemental indirect costs, e.g. of HR. Simply any kind of production or non-production costs are cost drivers. Resources such as materials used in production – let it be cash, raw material etc. are resource cost drivers. Standards are also considered as cost drivers, as some SOPs are set in the culture of a company which drives cost. For example, a company does mandatory training sessions for the managers which incur cost, and this is their standard/norm. for some production sites, the efficiency of machines is based on how many hours it has worked for and presence of less machines has less production which is also a standard, incurring high costs for production. Overtime premium costs of labors which are more than usual are also a standard of a company, which incurs extra cost.
6. Unit cost structure as explained in the 4th bullet, it is basically apportioning different costs into the scale of 1 unit – which basically improves the analysis and classification of future planning.
7. Economies of scale and scope regard to the advantages of efficient production, or optimization of costs on a single product or entity(scale) and into 2 or more types respectively(scope).
8. Fixed costs are basically the costs which are constant every time, e.g. rental of warehouse. Oil changes in a motor vehicle, whereas variable costs are the costs which change with regard to situation, for say the consumption of petrol is different in every month of a motor vehicle which is variable for every month. Both can be classified and it is the best way to plan or strategize/forecast the future operations , by in-depth analysis of variable costs.

* **Explanations to the bold terms**
* **Direct costs are the costs directly involved in the production, i.e. labor costs or machinery associated costs and indirect costs are the cost which have no direct regard in the production, i.e. the salary of a HR, he is crucial for management but is not directly involved in production.**
* **The concept of prudence means that we have to assume that everything happening in the business will give us minimum amount of return or we have to show zero hope so that we don’t overstate or forecast higher returns than we are going to incur in real.**
* **Different ratios are as:**

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**REFERENCES**

1.The Economist

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