Lessons

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Lesson 6 of 6: Module 1 Review

##### [**Quiz:**](https://www.coursera.org/learn/managerial-accounting-tools/exam/CqTbo/module-1-quiz) [Module 1 Quiz](https://www.coursera.org/learn/managerial-accounting-tools/exam/CqTbo/module-1-quiz)

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##### [**Peer Graded Assignment:**](https://www.coursera.org/learn/managerial-accounting-tools/peer/OlRDP/module-1-mini-project) [Module 1 Mini-Project](https://www.coursera.org/learn/managerial-accounting-tools/peer/OlRDP/module-1-mini-project)

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##### [**Review Your Peers:**](https://www.coursera.org/learn/managerial-accounting-tools/peer/OlRDP/module-1-mini-project/give-feedback) [Module 1 Mini-Project](https://www.coursera.org/learn/managerial-accounting-tools/peer/OlRDP/module-1-mini-project/give-feedback)

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## Review Classmates: Module 1 Mini-Project

|  |  |
| --- | --- |
| **Reviews** | 6 complete |

**Well done!**

You've sent 6 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

I It looks like this is your first peer-graded assignment. Learn more

Lucky Star Inc - financial & strategic decisions while introducing a new product



by Sai Prasad Valavala

Submitted on August 4, 2016

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## Part 1

For **each of the two decisions** you choose:

Describe a specific setting, the decision, decision alternatives, and any other information that would comprise an interesting and challenging problem.

Lucky Star Inc. is a global consumer products company, has decided to evaluate it existing product lines A, B & C to take decision on introducing a new product line D in North America by dropping least performing product line among the three. They all use the same manufacturing facility.   
  
75% of consumer base who buy Product A, also buys Product C in North America. The Manufacturing machinery can be used globally. This machinery for each product line is 2 years old which were initially bought for $100,000 each and they depreciated now for an amount of $50000 each, and it only has additional 2 years left, after that they will be Zero Value.  
  
The company has decided to start these three businesses A, B & C in Asia, and planning to buy manufacturing units, and wanted to leverage the machinery from the product line that is getting dropped from North America in Asia.  
  
Buying new machinery costs $100,000 each in Asia, and shipping the machinery from USA to Asia costs $50,000 each.  
  
Product Line A: Gross Sales: 500,000 **COGS:**  Variable Costs: 300,000 Fixed Costs: 75000   
Product Line B: Gross Sales: 4000,000 **COGS:**  Variable Costs: 250,000 Fixed Costs: 45000   
Product Line C: Gross Sales: 300,000 **COGS:**  Variable Costs: 2000,000 Fixed Costs: 35000

Read the response to Part 1 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 Points: No answer, completely irrelevant answer.
* **5 pts - 5 points: Insufficient, incomplete, lacks supporting evidence.**
* 7 pts - 7 points: passing, meets expectations.
* 9 pts - 9 points: Well above average, exceeds expectations.
* 10 pts - 10 points: Superior performance, excellent.

## Part 2

For **each of the two decisions** you choose:

Create a "deliverable" list for the person who would be completing the problem. This deliverable list should be comprised of (at least) two calculations and (at least) one qualitative discussion deliverable (i.e., requiring explanation, additional considerations, etc).

**KEEP OR DROP DECISION SCENARIO:**  
Total Net Income: 295,000  
Net Income for the 3 Product Lines:  
  
Line A: 125000 (500000-300000-75000)  
Line B: 105000 (400000-250000-45000)  
Line C: 65000 (300000-200000-35000)  
  
Analysis: Since they are sharing the same manufacturing facility, the fixed costs are not considered:  
What if Line C is Dropped:  
295000 - (300000-200000) = 195000  
  
What if Line B is Dropped:  
295000 - (400000-250000) = 145000  
  
What if Line A is dropped:  
295000 - (500000-300000) = 95000  
  
It is evident that Line C has to be dropped as far as the Financial Math is concerned, but 75% of consumer base who buy Product A, also buys Product C in North America, it involves strategic decision as well to make sure, we don't lose the customer base.  
  
**REPLACE OR RETAIN SCENARIO:**  
  
Buying New Machinery in Asia: 100000  
Utilizing the Machinery that is getting dropped in North America:  
50000 (shipping) + 50000 (Depreciation) = 100000  
After 2 Years, there won't be any value left, so Asia has to buy new machinery after 2 years. So spending additional $50000 on shipping doesn't make any difference buying a brand new one in Asia that anyway loses 50000 as depreciation in two years.

Read the response to Part 2 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* 9 pts - 9 points: Well above average, exceeds expectations.
* **10 pts - 10 points: Superior performance, excellent**

## Part 3

For **each of the two decisions** you choose:

In general, ensure that your exercise tests the person's knowledge related to the use of relevant information in decision making. That is, your exercise should contain some relevant and some "irrelevant" information, so that the person must distinguish between the two types of information. Further, your exercise should allow the person to demonstrate their understanding related to at least two of the following items:

* Opportunity costs
* Sunk costs
* Allocated fixed costs
* Fixed-cost per unit information

Relevant Information when making a decision:   
75% of consumer base who buy Product A, also buys Product C in North America  
The Manufacturing machinery can be used globally.  
  
Sunk Cost:  
Each Machinery depreciated for an amount of $50000  
  
Opportunity Cost:  
shipping the machinery from USA to Asia costs $50,000 for each Machinery.

Read the response to Part 3 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* 9 pts - 9 points: Well above average, exceeds expectations.
* **10 pts - 10 points: Superior performance, excellent.**

## Part 4

Finally, provide a solution for your exercise.

KEEP OR DROP DECISION SCENARIO:  
  
I would go with dropping product line B, though financially it stands better than Product line C; but strategically given the other information around 75% of customers who buys product A, also buys Product C.  
  
REPLACE OR RETAIN SCENARIO:  
  
I would buy the new Machinery in ASIA, as shipping the used machinery from North America is not making any benefit, as shipping costs equals the depreciation costs.

Read the response to Part 4 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* 9 pts - 9 points: Well above average, exceeds expectations.
* **10 pts - 10 points: Superior performance, excellent.**

Please share constructive comments about the responses. What is one strength of the submissions? What is one area of improvement that you would like to suggest?

Submit Review

*Q1 ... Product Line C: Variable Costs: 2000,000???*

*Product Line A: Gross Sales: 500,000 COGS: Variable Costs: 300,000 Fixed Costs: 75000*

*Product Line B: Gross Sales: 4000,000 COGS: Variable Costs: 250,000 Fixed Costs: 45000*

*Product Line C: Gross Sales: 300,000 COGS: Variable Costs: 2000,000 Fixed Costs: 35000*

*I assume that the figure (2,000,000 and 200,000 is ten times) provides in Q1 is wrong and the rest is correct... otherwise Q1 correct and the rest will be wrong...*

Visible to classmates

