Real-Time Case Study – In-House Research, Development & Educational Report

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1. Case Summary

Annual Revenue for the year in this case is approximately $500,000. Business reports the profit to be only 5% for this year and this profit has reduced by 5% from the previous year. Based on this pattern for the past 3–5 years, the business is currently classified under evaluation for feasibility and preparedness as expected to be “Going Concern”.

Breakdown of primary product line of business: With the current market conditions, if the business can continue to keep the cost of the product as $50.00 while increasing the revenue at the same time by 10%, business in this case would be considered to be over the fence of Going Concern while still well positioned for an upcoming opportunity venture under this primary product line of business.

A 300g of product cost is $50.00. Cost of 1g of product is $0.167. Total number of Products sold in the year = 10,000.

Total expense = $475,000.00. Total revenue = $500,000.00. Profit is $25,000.

To increase the revenue by 10%; either of the following assumptions have to be true:
1. Total number of Product sold for that year should be = 10,500
2. Total expense for that year should be = $450,000.00
3. Any other assumption? (leading to Option 3 – COGS Reduction)

2. Baseline Financials & Unit Economics

Metric	Value
Units Sold	10,000
Price per Unit	$50.00
Revenue	$500,000
Total Expense	$475,000
Net Profit	$25,000 (5%)
Profit per Unit	$2.50

3. Traditional Approaches (Option 1 & 2)

Option 1 – Volume Growth: Sell 11,000 units (+10% revenue). Expenses rise proportionally ($522,500). Profit increases slightly to $27,500 but margin remains 5%.

Option 2 – Total Expense Cut: Reduce total expense to $450,000 → Profit = $50,000 (10% margin).

May harm growth if overhead cuts are unsustainable.

4. Option 3 – COGS Reduction (Third Vital Lever)

Metric	Before	After (COGS = $45)
Units Sold	10,000	10,000
Revenue	$500,000	$500,000
Total Expense	$475,000	$450,000
Net Profit	$25,000	$50,000
Net Margin	5%	10%
Profit per Unit	$2.50	$5.00

5. Tax, Use Tax & Tariff Calculations

Assumptions: California Sales Tax 8.5% (7.25% + 1.25%), Tariff 12.5% (midpoint of 10–15%).
Sales/Use Tax = 500,000 × 8.5% = 42,500.
Tariff = 500,000 × 12.5% = 62,500.
Total Burden = 105,000.

Scenario	Revenue	Total Expense	Profit	Margin
Base (No Tax)	$500,000	$450,000	$50,000	10%
Absorb All Tax/Tariff	$500,000	$555,000	–$55,000	–11%
Offset via COGS Cut	$500,000	$555,000	–$30,000 Net	–6%
Pass-Through 76%	$580,000	$555,000	$25,000	4.3%
Pass-Through 100%	$605,000	$555,000	$50,000	8.3%

6. Case B – No Tax/Tariff Applicable

If no taxes or tariffs apply, Option 3 immediately achieves a 10% margin and doubles profit without requiring pass-through pricing or volume increase.

7. Live Narrative (Abhishek's Perspective)

“Running a trillion-dollar company on a dime for more than a decade — this is how we think about sustainability.

When we started this review, we saw only two options: sell more (Option 1) or cut total expense (Option 2). But as we kept digging, we asked the critical question — what about the cost per unit?

By reducing COGS from $50 to $45, profit doubled without changing price or volume. This was the ‘aha’ moment. Then we overlaid tax, use tax, and tariff calculations. Rather than ignoring them, we modeled how much cushion we had already created with COGS savings — and how much pass-through would still be needed to protect a 10% margin.

This is not just a spreadsheet exercise; it is a live business conversation, applying accounting principles — Going Concern, Revenue Recognition, Separate Entity, and Substance over Form — to make sure the business not only survives but is positioned to scale responsibly.

As Abhishek emphasized: **‘We are not just chasing revenue, we are building a foundation that excites — one that makes future growth profitable.’** Option 3 became the bridge between survival and growth.”

8. Strategic Summary & Forward-Looking Perspective

Option 3 is a classic 'Shrink to Scale' strategy – reduce COGS first, then grow volume profitably. This approach is particularly relevant under current market conditions where input costs are volatile and pricing pressure is high. Businesses that secure supplier efficiencies, optimize operations, and maintain price discipline will be positioned to capture market share without sacrificing margins.

9. Disclaimer & Research Note

This Real-Time Case Study reflects a live case review (Case 09102025) and is presented as part of ongoing in-house Research, Development, and Educational efforts. Applicability of these findings depends on business type, tax and tariff applicability, and market conditions. Businesses should consult professional advisors before implementing decisions based on this report.

These efforts continue as part of GAAP/IFRS case studies and may relate to legal reviews or SEC proceedings. *This document is for internal research and strategic planning purposes and should not be treated as formal tax or legal advice.*