Paper – Ch – 6 : Marginal Costing

Q. 1) ABC Ltd. incurs fixed costs of ₹ 3,00,000 per annum. It is a single product company with annual sales budgeted to be 70,000 units at a sales price of ₹ 300 per unit. Variable costs are ₹ 285 per unit.

The company is deliberating upon an increase in the selling price of the product to ₹ 350 per unit. This shall be required in order to improve the quality of the product. It is anticipated that despite increase in the selling price the sales volume shall remain unaffected. However, the fixed costs shall increase to ₹ 4,50,000 per annum and the variable costs to ₹ 330 per unit.

You are required to draw a profit volume graph, and determine the breakeven point. Also draw on the same graph a second profit volume graph and give your comments.

Q . 2) The sales turnover and profit during two periods were as follows:

Period	Sales (₹)	Profit (₹)
1	2,00,000	20,000
2	3,00,000	40,000

What would be probable trading results with sales of ₹ 1,80,000? What amount of sales will yield a profit of ₹ 50,000?

Q. 3) Two businesses AB Ltd and CD Ltd sell the same type of product in the same market. Their budgeted profits and loss accounts for the year ending 30th June, 2021 are as follows:

	AB Ltd		CD Ltd	
Sales		1,50,000		1,50,000
Less: Variable costs	1,20,000		1,00,000	
Fixed Cost	15,000	1,35,000	35,000	1,35,000
Profit		15,000		15,000

You are required to calculate the BEP of each business and state which business is likely to earn greater profits in the following conditions:

(a) Heavy demand for the product

(b) Low demand for the product

Q. 4) Prisha Limited manufactures three different products and the following information has been collected from the books of accounts:

	Products		
	A	**B**	**C**
Sales Mix	40%	35%	25%
Selling Price	₹ 300	₹ 400	₹ 200
Variable Cost	₹ 150	₹ 200	₹ 120
Total Fixed Costs	₹ 18,00,000		
Total Sales	₹ 60,00,000		

The company has currently under discussion, a proposal to discontinue the manufacture of Product C and replace it with Product E, when the following results are anticipated:

	Products		
	A	**B**	**E**
Sales Mix	45%	30%	25%
Selling Price	₹ 300	₹400	₹ 300
Variable Cost	₹ 150	₹200	₹ 150
Total Fixed Costs	₹ 18,00,000		
Total Sales	₹ 64,00,000		

Required:

(i) CALCULATE the total contribution to sales ratio and present break-even sales at existing sales mix.

(ii) CALCULATE the total contribution to sales ratio and present break-even sales at proposed sales mix.

(iii) STATE whether the proposed sales mix is accepted or not?