



HS edification



Marginal Costing

It is Specifically the variable cost of one additional unit of production. It's the cost that would be avoided if that unit were not produced, or that would be incurred in one or more unit were produced.

Statement

		<u>Breakeven</u>
Sales	✓	1000
(<u>less</u>) Variable cost	(✓)	(500)
Contribution	✓	500
(<u>less</u>) Fixed cost	(✓)	(500)
Profit	✓	0

Example

S.P = 500
DM = 150
DL = 100
VOH = 50
Fixed OH = 20,000
Units = 100

	Sales	1,00,000
SP	500	500
(<u>less</u>) DM	(150)	
DL	(100)	
VOH	(50)	
Cont	200	200
X Units	100	(200)
Total Cont.	20,000	40,000
(<u>less</u>) Fixed	(20,000)	(20,000)
Profit	0	20,000

$$\frac{20,000 + 20,000}{200}$$

1) Break even point = $\frac{\text{fixed cost}}{\text{Contribution/Unit}}$

$$= \frac{20,000}{200}$$

$$= 100 \text{ units,,}$$



$$2] P/V \text{ ratio} = \frac{SP - VC}{SP} \times 100$$

$$\text{or } \frac{\text{Contribution/Unit}}{SP} \times 100$$

$$= \frac{200}{500} \times 100$$

$$= 40\%$$

$$3] \text{ Break even point (₹)} = \frac{\text{Fixed Cost}}{P/V \text{ ratio}}$$

$$= \frac{20,000}{40\%}$$

$$= 50,000$$

$$4] \text{ Margin of Safety} = \text{Sales} - \text{BEP}$$

$$= 60,000 - 50,000$$

$$= 10,000$$

or //

$$\text{Margin of Safety} = \frac{\text{Profit}}{P/V \text{ ratio}}$$

$$5] \text{ Desired Profit} = \frac{\text{Fixed Cost} + \text{desired Profit}}{\text{Cont./Unit}} \text{ or } \frac{FC + DP}{P/V \text{ ratio}}$$



$$6] \text{ Shut down point} = \frac{FC - \text{Shut down cost}}{\text{P/V ratio}}$$

7] If information is given for more than 1 year

$$\text{P/V ratio} = \frac{\text{change in Profit}}{\text{change in sales}} \times 100$$

	<u>2011</u>	<u>2012</u>
Profit	10,000	20,000
Sales	1,00,000	<u>1,30,000</u>

$$\begin{aligned} \text{P/V ratio} &= \frac{10,000}{20,000} \times 100 \\ &= 50\% \end{aligned}$$

		<u>2012</u>
Sales	1,00,000	1,30,000
	750/-	750/-
Cost	50,000	65,000
(or) FC	<u>(40,000)</u>	<u>(25,000)</u>
Profit	10,000	20,000

