SNS College of Technology

Coimbatore – 35

19BACT602 – Accounting For Managers

Unit IV- Decision Making Tools- I

Presented by

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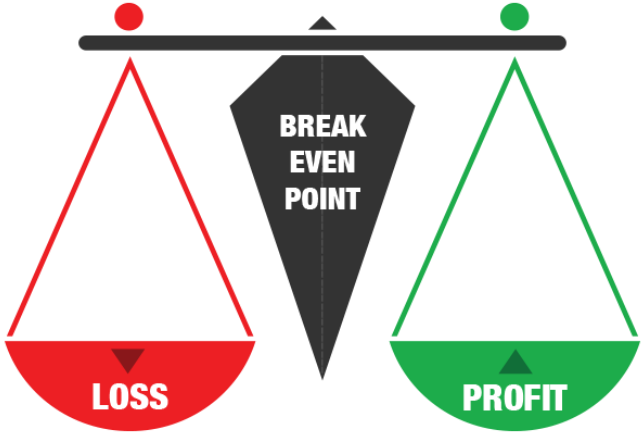
Design Thinker

1st Indi Institution Implement

Design Thinking Curriculum

Redesigning Common Mind and Business Towards

Topic ????????


BREAK
EVEN
POINT
LOSS
PROFIT


research
Planning
consumer
mission
break
even
analysis
target
business
success
marketing

Break Even Analysis

Components of Break-Even Analysis

Fixed costs:

These costs are also known as overhead costs. These costs materialise once the financial activity of a business starts. The fixed prices include taxes, salaries, rents, depreciation cost, labour cost, interests, energy cost, etc.

Variable costs:

These costs fluctuate and will decrease or increase according to the volume of the production. These costs include packaging cost, cost of raw material, fuel, and other materials related to production.

= Rs. 20,000 units

Problem 4: Calculate Break-Even Point from the following particulars.

	Rs.
Fixed expenses	1,50,000
Variable cost per unit	10
Selling price per unit	15

Solution:

Calculation of Break-even point :

$$\text{B.E.P. (in units)} = \frac{\text{Fixed expenses}}{\text{Contribution per unit}}$$

Contribution per unit =

Selling price p.u. – Variable cost p.u.

Rs. 15 – Rs. 10 = Rs. 5

$$\text{B.E.P. (in units)} = \frac{\text{Rs. } 1,50,000}{5} = 30,000 \text{ units}$$

B.E.P. (in rupees) = B.E.P. in units × Selling price per unit

= 30,000 × Rs. 15

= Rs. 4,50,000

Problem 5: Calculate Break-even point:

	Rs.
Sales	6,00,000
Fixed expenses	1,50,000
Variable costs :	
Direct Material	2,00,000
Direct Labour	1,20,000
Other Variable expenses	80,000

Solution:

$$\text{B.E.P. (in Rs.)} = \frac{\text{Fixed expenses}}{\text{Contribution}} \times \text{Sales}$$

$$\text{Contribution} = \text{Sales} - \text{Variable cost}$$

$$= \text{Rs. } 6,00,000 - \text{Rs. } 4,00,000 = \text{Rs. } 2,00,000$$

$$= \frac{1,50,000}{2,00,000} \times 6,00,000 = \text{Rs. } 4,50,000$$

Note : When per unit cost and selling price are not given, B.E.P. can be calculated only in terms of Rupees.

Problem 6: The following informations are given for two companies.

	X Ltd.	Y Ltd.
Units produced & sold	17,000	17,000
Revenues	Rs. 1,70,000	Rs. 1,70,000
Fixed costs	85,000	34,000
Operating income	51,000	51,000
Variable cost	34,000	85,000

Find out the Break-Even Point of each company both in units as well as in volume.

	X Ltd. Rs.	Y Ltd. Rs.
Sales	1,70,000	1,70,000
Less : Variable cost	34,000	85,000
Contribution	1,36,000	85,000
Less : Fixed cost	85,000	34,000
Profit (Operating income)	51,000	51,000

$$\text{B.E.P. (in Rs.)} = \frac{\text{Fixed cost}}{\text{Contribution}} \times \text{Sales}$$

$$\text{X Ltd} = \frac{85,000}{1,36,000} \times 1,70,000 = \text{Rs. } 1,06,250$$

$$\text{Y Ltd} = \frac{34,000}{85,000} \times 1,70,000 = \text{Rs. } 68,000$$

Selling price p.u. = 1,70,000 ÷ 17,000 = Rs. 10
B.E.P. (in units)
X Ltd = 1,06,250 ÷ 10 = 10,625 units
Y Ltd = 68,000 ÷ 10 = 6,800 units

Problem 7: Given:

Fixed cost	Rs. 8,000
Break Even Sales (in units)	4000
Sales	7000 units
Selling price per unit	Rs. 10

Calculate (a) Variable cost (b) Profit

Solution:

Break Even Sales = 4000 units
Selling price p.u. = Rs. 10
Break Even Sales (in Rs.) = 4,000 × 10 = Rs. 40,000

(a) Calculation of Variable cost:

At break even sales profit is NIL

	Break Even Sales	= Rs. 40,000
Less:	Variable Cost (bal. fig)	= Rs. 32,000
	Contribution	= Rs. 8,000
Less:	Fixed Cost	= Rs. 8,000
	Profit	= 0

$$\text{Variable Cost p.u.} = \frac{32,000}{4,000 \text{ units}} = \text{Rs. } 8$$

(b) Profit when sales are 7,000 units:

	Sales (7,000 units × Rs. 10)	= Rs. 70,000
Less:	Variable cost (7000 × 8)	= Rs. 56,000
	Contribution	= Rs. 14,000
Less:	Fixed cost	= Rs. 8,000
	Profit	= Rs. 6,000

Summary

Break Even Analysis

Components of break even analysis problems

Reference

- https://commercemates.com/scope-of-financial-accounting/

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