



SNS College of Technology

Coimbatore - 35



19BACT602 – Accounting For Managers

Unit IV – DECISION MAKING TOOL – I



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1st Indian Institution to Implement Design Thinking Curriculum
Redesigning Common Mind and Business
Towards Excellence



Recall

BREAK EVEN ANALYSIS





Topic ??????????

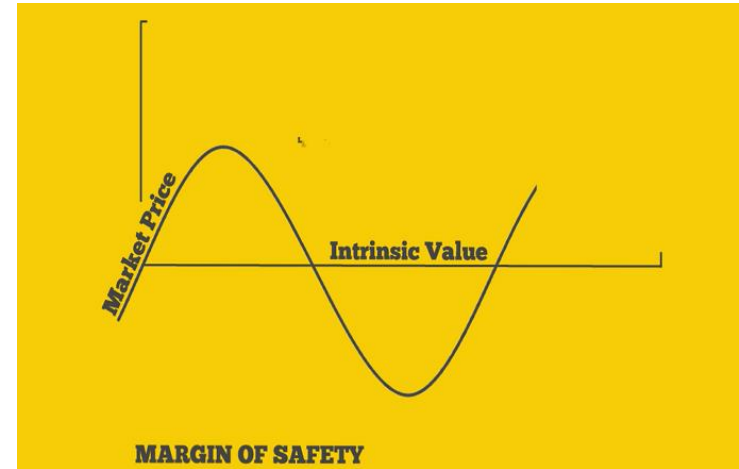


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MEANING

The difference between actual output and break even output is known as **MARGIN OF SAFETY**





MARGIN OF SAFETY

FORMULA

MOS = Actual sales – Break even analysis

OR

$$\text{MOS} = \frac{\text{Profit}}{\text{P/V ratio}} = \frac{\text{Profit} \times \text{Sales}}{\text{Contribution}}$$





UNDERSTANDING MARGIN OF SAFETY

Investors working with a margin of safety will utilize factors such as company management, market performance, governance, earnings, and assets to determine the stock's intrinsic value. The actual market price is then used as a comparison point to calculate the margin safety.



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USES IN INVESTING



An investor may apply the margin of safety to determine the company's share price with its current market price and use the variance as a basis for buying securities. It means that there is remarkable upward potential for the stock prices.



USES IN BUSINESS



In business, the margin of safety is the variation between the break-even sales and the actual sales. The margin of safety may be used to inform the company's management about an existing cushion before it becomes unprofitable. For example, a company's sales stand at 4,000 units currently. The break-even point estimation is 3,800 units. Therefore, the margin of safety will be 200 units.



USES IN BUDGETING



In budgeting, the margin of safety is the total change between the sales output and the estimated sales decline before the company becomes redundant. It alerts the management against the risk of a loss that is about to happen. A lower margin of safety may force the company to cut budgeted expenditure. Generally, a high margin of safety assures protection from sales variations.



IMPORTANCE OF MARGIN OF SAFETY

A high margin of safety is often preferred since it indicates optimum performance and the ability of a business to cushion against market volatility. However, a low margin of safety may indicate unstable business standing and must be enhanced by increasing the sales volume. It will cushion the investors against errors and poor decisions.





Summary

MARGIN OF SAFETY

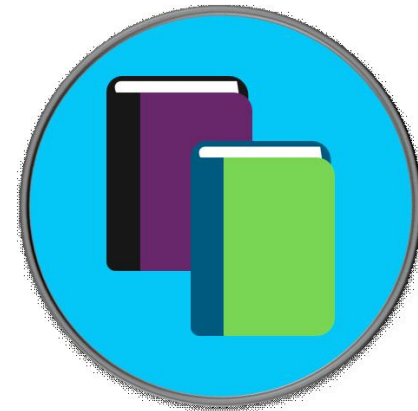
SUMMARY





Reference

- <https://corporatefinanceinstitute.com/resources/wealth-management/margin-of-safety/>





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