



SNS College of Technology



Coimbatore - 35

23BAT605 – FINANCIAL
STATEMENT ANALYSIS
Unit IV – MARGINAL COSTING

Topic: Guess?????



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Design Thinker

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PROBLEM:1

From the following data calculate the break-even point.

Direct material per unit	₹ 3
Direct labour per unit	₹ 2
Fixed overhead (Total)	₹ 10,000
Variable overhead	100% on direct labour
Selling price per unit	₹ 10
Trade discount	5%

Also determine the net profits, if sales are 10% above the break-even point.

Solution

Marginal Cost Statement

	₹
Net selling price (₹ 10 - 5% discount)	9.50
Direct material	3.00
Direct labour	2.00
Variable Overhead	2.00
Variable cost	7.00
Contribution (₹ 9.50 - 7.00)	2.50

$$\text{Break-even point} = \frac{F}{C} = \frac{10,000}{2.50} = 4,000 \text{ units}$$

$$\text{B.E. Point (in ₹)} = 4,000 \text{ units @ ₹ 10} = ₹ 40,000$$

$$\text{Less : 5% discount} = 2,000$$

$$\text{Net sales value at B.E. Point} = ₹ 38,000$$

When sales are 10% above B.E. Point

$$\text{Sales} = 4,000 + 10\% = 4,400 \text{ units}$$

$$\text{Contribution (4,400 units} \times \text{₹ 2.50)} = ₹ 11,000$$

$$\text{Less : Fixed cost} = ₹ 10,000$$

$$\text{Profit} = ₹ 1,000$$



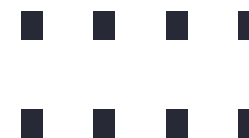
PROBLEM :2

The following data is given :

Selling price	20 per unit	₹
Variable manufacturing costs	11 per unit	
Variable selling costs	3 per unit	
Fixed factory overheads	5,40,000 per year	
Fixed selling costs	2,52,000 per year	

You are required to compute :

- (i) Break-even point expressed in amount of sales in rupees;
- (ii) Number of units that must be sold to earn a profit of ₹ 60,000 per year.
- (iii) How many units must be sold to earn a net income of 10% of sales?





Solution

$$P/V \text{ ratio} = \frac{S - V}{S} = \frac{20 - 14}{20} = \frac{6}{20} = 30\%$$

$$(i) \text{ Break-even point} = \frac{\text{Fixed cost}}{P/V \text{ ratio}} = \frac{5,40,000 + 2,52,000}{30\%}$$
$$= \frac{\text{₹ } 7,92,000}{30\%} = \text{₹ } 26,40,000$$

(ii) Units to be sold to earn a profit of ₹ 60,000

$$= \frac{\text{Fixed cost} + \text{desired profit}}{\text{Contribution per unit}} = \frac{7,92,000 + 60,000}{6} = 1,42,000 \text{ units}$$

$$\text{Contribution} = S - V = 20 - 14 = \text{₹ } 6$$

(iii) Suppose units to be sold to earn 10% profit = 'x'

$$\text{Total sales} = \text{Selling price} \times \text{units} = 20x$$

$$\text{Total sales} = \text{Variable cost} + \text{Fixed cost} + \text{Profit}$$

$$20x = 14x + 7,92,000 + 2x$$

Thus

$$4x = 7,92,000$$

$$x = 7,92,000 \div 4$$

$$x = 1,98,000$$

Thus sales to earn a net income of 10% on sales = 1,98,000 units.



Time for the assessment...



- Spell out the formula for break even point





Summary

Marginal Costing Problem

SUMMARY





References...

- Accounting for Management, CMA.MN Arora





Thank
you





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