



SNS College of Technology



Coimbatore - 35

23BAT605 – FINANCIAL
STATEMENT ANALYSIS
Unit IV – MARGINAL COSTING

Topic: Guess?????



Presented by

Ms.S.Swarnam
Design Thinker

1st Indian
Institution Design
to **Implement** Thinking
Curriculum

Redesigning Common Mind and
Business Towards Excellence



MARGIN — OF — SAFETY





Let's
Recap





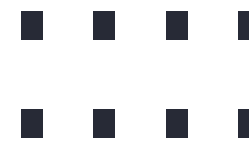
PROBLEM:1

Calculate margin of safety in each of the following independent situations.

- Break even point 40%, Actual sales ₹ 40,000
- Actual sales - 40,000 units, Break-even point 25,000 units
- Break-even point - 75%
- P/V ratio 40%, Profit ₹ 35,000
- Contribution per unit ₹ 20, Profit ₹ 15,000

Solution

- Margin of safety = Actual sales - B.E. Point
= ₹ 40,000 - 40% = ₹ 24,000
- Margin of safety = Actual sales - B.E. point
= 40,000 units - 25,000 units = ₹ 15,000 units
- Margin of safety = 100 - B.E. Point = 100 - 75% = 25%
- Margin of safety = $\frac{\text{Profit}}{\text{P/V ratio}} = \frac{35000}{40\%} = ₹ 87,500$
- Margin of safety = $\frac{\text{Profit}}{\text{Contribution per unit}} = \frac{₹ 15,000}{₹ 20} = 750 \text{ units}$





PROBLEM :2

Calculate break-even point in each of the following independent situations.

- (i) Fixed cost ₹ 10,000; P/V ratio 50%
- (ii) Fixed cost ₹ 15,000; Contribution ₹ 3 per unit.
- (iii) Margin of safety - 20%
- (iv) Fixed cost ₹ 9,000, Variable cost to sales ratio = 60%
- (v) Actual sales ₹ 50,000, Margin of safety 30%
- (vi) Profit ₹ 30,000, Margin of safety 20%, Variable cost is 70% of sales.
- (vii) Margin of safety ₹ 70,000, Actual sales ₹ 4,00,000.
- (viii) Actual sales 10,000 units, Margin of safety 2,500 units

Solution

(i) B.E. Point = $\frac{\text{Fixed cost}}{\text{P/V ratio}} = \frac{\text{₹ 10,000}}{50\%} = \text{₹ 20,000}$

(ii) B.E. Point = $\frac{\text{Fixed cost}}{\text{Contribution per unit}} = \frac{\text{₹ 15,000}}{\text{₹ 3}} = 5,000 \text{ units}$

(iii) B.E. Point = $100 - \text{Margin of safety in \%} = 100 - 20 = 80\% \text{ of sales}$

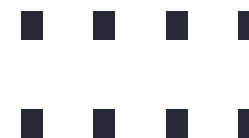
(iv) P/V ratio = $100 - 60\% = 40\%$

B.E. Point = $\frac{\text{Fixed cost}}{\text{P/V ratio}} = \frac{9,000}{40\%} = \text{₹ 22,500}$

(v) B.E. Point = $\text{Actual sales} - \text{Margin of safety}$
 $= \text{₹ 50,000} - 30\% = \text{₹ 35,000}$

(vi) P/V ratio = $100 - 70\% = 30\%$

Margin of safety = $\frac{\text{Profit}}{\text{P/V ratio}} = \frac{\text{₹ 30,000}}{30\%} = \text{₹ 1,00,000}$





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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