

MARGINAL COSTING FLOWCHART BY CA RAKESH AGRAWAL

BASIC FORMULAE

Sales - Variable Cost = Contribution
 Sales - Contribution = Variable Cost
 Sales = Variable Cost + Contribution

Contribution - Fixed Cost = Profit/(Loss)
 Contribution = Profit + Fixed Cost
 Contribution = Fixed Cost - Loss
 Contribution - Profit = Fixed Cost
 Contribution + Loss = Fixed Cost

Variable Cost + Fixed Cost = Total Cost
 Fixed Cost = Total Cost - Variable Cost
 Variable Cost = Total Cost - Fixed Cost

Profit Volume Ratio (PVR)

$$= \frac{\text{Contribution}}{\text{Sales}} \times 100$$

 PVR x Sales = Contribution

$$\text{Sales} = \frac{\text{Contribution}}{\text{PVR}}$$

Level of activity to earn desired profit

$$= \frac{(\text{Desire profit} + \text{Fixed cost})}{\text{Contb.p.u.or PVR or Cont.at 1\% cap.}}$$

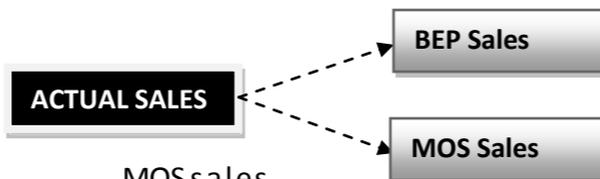
SHORT CUT FORMULAE

Variable cost p.u. = $\frac{\text{Change in cost}}{\text{Change in output}}$

Contribution per unit = $\frac{\text{Change in profit}}{\text{Change in output}}$

Variable cost Ratio = $\frac{\text{Change in cost}}{\text{Change in sales}} \times 100$

P.V. Ratio = $\frac{\text{Change in Profit}}{\text{Change in sales}} \times 100$



MOS = $\frac{\text{MOS sales}}{\text{Total sales}} \times 100$

Profit = MOS sale x P/V Ratio

$\frac{\text{Profit}}{\text{PVR}} = \text{MOS sale}$

$\frac{\text{Profit}}{\text{MOS sales}} = \text{PVR Ratio}$

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BREAK EVEN POINT

1. NORMAL BEP : It is the sales activity at which there is no profit no loss. It can be calculated as follows

BEP (units) = $\frac{\text{Total Fixed Cost}}{\text{Contribution Per Unit}}$

BEP (Rs) = $\frac{\text{Total Fixed Cost}}{\text{P/V Ratio}}$

BEP (% capacity) = $\frac{\text{Total Fixed Cost}}{\text{Contribution at 1\% capacity}}$

2. CASH BEP : It is the sales activity at which there is no cash loss. It means contribution earned is exactly equal to cash fixed cost

Cash BEP = $\frac{\text{Cash Fixed Cost}}{\text{Contb.p.u.or PVR}}$

3. COMPOSITE BEP : It is calculated for multiple products together. It is the composite (i.e. combined) sales at which there is no profit no loss. It can be calculated as

Composite BEP = $\frac{\text{Overall fixed cost}}{\text{Overall PVR}}$

Overall PVR = $\frac{\text{Overall contribution}}{\text{Overall sales}} \times 100$

4. COST BEP : It is the point at which total cost (i.e. V.C. + F.C.) under the two alternatives is exactly the same. The alternative with lower fixed cost is cheaper below Cost BEP and alternative with lower variable cost is cheaper above Cost BEP

Cost BEP = $\frac{\text{Diff.in fixed cost}}{\text{Diff.in v.c.p.u.}}$

MARGINAL COSTING V/S ABSORPTION COSTING

1. In marginal costing we treat fixed cost as period cost whereas under absorption costing we treat fixed cost as product cost.
2. In marginal costing closing stock is valued at variable cost of production. However under absorption costing closing stock is valued at total cost of production.
3. In marginal costing value of stock is lower than absorption costing.
4. Marginal costing rewards sales and absorption costing rewards production.
5. Marginal costing is used for decision making and absorption costing is used for accounting.

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Best of Luck

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