

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

Profitability of business operations can be found out by calculating **Profit-Volume ratio**

$$\text{PV ratio} = \frac{C}{S} \text{ or } \frac{S - V}{S} \text{ or } \frac{F + P}{S} = \frac{7,50,000}{22,50,000} = \frac{1}{3}$$

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

$$S \times P/V = C \quad 22,50,000 \times 1/3 = 7,50,000$$

Profitability of business operations can be found out by calculating **Profit-Volume ratio**

$$\text{PV ratio} = \frac{C}{S} \text{ or } \frac{S - V}{S} \text{ or } \frac{F + P}{S} \quad \frac{7,50,000}{22,50,000} = \frac{1}{3}$$

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

$S \times P/V = C$ 22,50,000 x 1/3 = 7,50,000

$S \times (1 - P/V) = V$ 22,50,000 x (1 - 1/3) or 22,50,000 x 2/3 = 15,00,000

Profitability of business operations can be found out by calculating Profit-Volume ratio

$$PV \text{ ratio} = \frac{C}{S} \text{ or } \frac{S - V}{S} \text{ or } \frac{F + P}{S} \quad \frac{7,50,000}{22,50,000} = \frac{1}{3}$$

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

$S \times P/V = C$ 22,50,000 x 1/3 = 7,50,000

$S \times (1 - P/V) = V$ 22,50,000 x (1 - 1/3) or 22,50,000 x 2/3 = 15,00,000

$C / (P/V) = S$ 7,50,000 / (P/V) or 7,50,000 x (V/P) = 22,50,000

Profitability of business operations can be found out by calculating Profit-Volume ratio

$$PV \text{ ratio} = \frac{C}{S} \text{ or } \frac{S - V}{S} \text{ or } \frac{F + P}{S} \quad \frac{7,50,000}{22,50,000} = \frac{1}{3}$$

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

$S \times P/V = C$ 22,50,000 x 1/3 = 7,50,000

$S \times (1 - P/V) = V$ 22,50,000 x (1 - 1/3) or 22,50,000 x 2/3 = 15,00,000

$C / (P/V) = S$ 7,50,000 / (P/V) or 7,50,000 x (V/P) = 22,50,000

$F / (P/V) = \text{BEP sales}$ 5,00,000 x 3/1 = 15,00,000

the point at which sales is equal to Total costs i.e., V+F
no profit – no loss point

S = 15,00,000

V = 10,00,000 (15,00,000 x 2/3)

C = 5,00,000

F = 5,00,000

P = ---

Profitability of business operations can be found out by calculating Profit-Volume ratio

$$\text{PV ratio} = \frac{C}{S} \text{ or } \frac{S - V}{S} \text{ or } \frac{F + P}{S} = \frac{7,50,000}{22,50,000} = \frac{1}{3}$$

SrinivasaDC-Kovur

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000
	- V	15,00,000
Profit	C	7,50,000
	- F	5,00,000
Netprofit	P	2,50,000

$S \times P/V = C$ 22,50,000 x 1/3 = 7,50,000

$S \times (1 - P/V) = V$ 22,50,000 x (1 - 1/3) or 22,50,000 x 2/3 = 15,00,000

$C / (P/V) = S$ 7,50,000 / (P/V) or 7,50,000 x (V/P) = 22,50,000

$F / (P/V) = \text{BEP sales}$ 5,00,000 x 3/1 = 15,00,000

$P / (P/V) = \text{MS Margin of safety}$ 2,50,000 x 3/1 = 7,50,000

amount which can be used for other purposes without adversely affecting the existing business. (Actual sales – BEP sales)

Profitability of business operations can be found out by calculating Profit-Volume ratio

$$\text{PV ratio} = \frac{C}{S} \text{ or } \frac{S - V}{S} \text{ or } \frac{F + P}{S} \quad \frac{7,50,000}{22,50,000} = \frac{1}{3}$$

Marginal Costing is a useful technique which guides management in pricing, decision making and assessment of profitability. It classifies all costs into Fixed cost and variable cost (semi-variable costs should also be resolved into variable and fixed Components).

As fixed costs remain static and are largely uncontrollable, variable expenses should be taken into account for management decision making. Marginal costs is synonymous with variable costs i.e., Prime cost + variable overheads.

The excess of Sales over Variable costs represents **Contribution or Gross Margin**. Contribution may be considered as some sort of fund from out of which all fixed costs are met. It is also represented as Profit in Marginal Costing.

The excess of contribution over fixed costs represents netprofit.

Marginal Cost Equation : **$S - V = F + P$**

or we can say $S - V = C$ and $C - F = P$

Exercise:

From the following information, find out the amount of profit earned during the year using marginal cost technique.

Fixed cost Rs. 5,00,000

Variable cost Rs.10 per unit

Selling price Rs.15 per unit

Output level 1,50,000 units.

Solution:

Sales = 1,50,000 x 15 = Rs. 22,50,000

Variable cost = 1,50,000 x 10 = Rs. 15,00,000

Fixed cost given = Rs. 5,00,000

sales Volume	S	22,50,000	$S \times P/V = C$ 22,50,000 x 1/3 = 7,50,000
	- V	15,00,000	$S \times (1 - P/V) = V$ 22,50,000 x (1 - 1/3) or 22,50,000 x 2/3 = 15,00,000
Profit	C	7,50,000	$C / (P/V) = S$ 7,50,000 / (P/V) or 7,50,000 x (V/P) = 22,50,000
	- F	5,00,000	$F / (P/V) = \text{BEP sales}$ 5,00,000 x 3/1 = 15,00,000
Netprofit	P	2,50,000	$P / (P/V) = \text{MS Margin of safety}$ 2,50,000 x 3/1 = 7,50,000

Sales to be made to obtain a desired profit:

$$\frac{F + \text{Desired Profit}}{P/V}$$