

$$BEP = \frac{\text{Cost driver} \times \text{No. of times activity performed}}{\text{C.P. activity}}$$

<u>Cost driver</u>	<u>Examples</u>	<u>Activity</u>
Setup Cost		No. of Setups
Eng. Cost		No. of Eng hrs.

> CVP analysis @ NPO is called Operating / Service Costing

> Linear Programming Technique :-

Used in Optimum allocation of available resources to obtain the defined objective

Form 1) objective function

2) constraints.

Methods 1) Graphical method

2) Simplex method (NA)

> Learning Curve Theory

As Labour gain experience in doing a particular work. The time taken per unit reduces as productivity goes up.

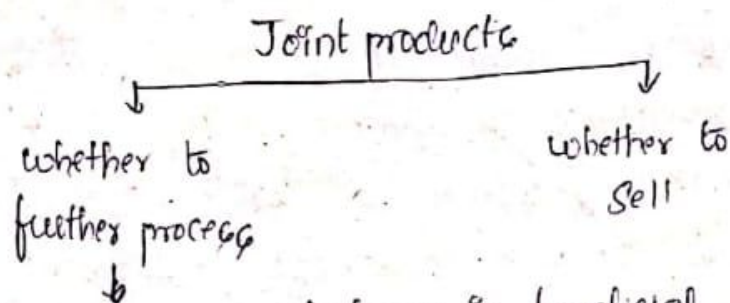
Methods:

1) Doubling approach

2) Formulae approach

$$Y/X = k \times X^{-0.75}$$

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Note that joint cost incurred is Sunk cost

> Minimum Pricing / least pricing:-

1. Competition.
2. Clear inventory pile up.
3. To increase market share.

> Keep or Drop decisions in Product line; Segments

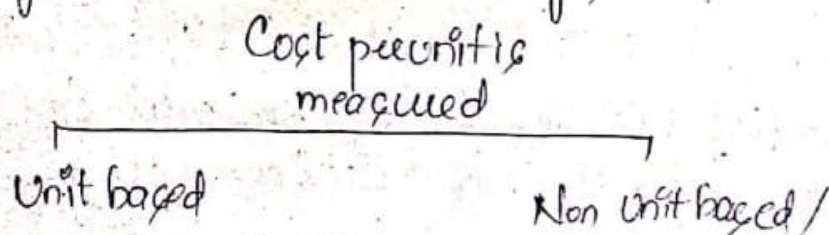
> Special order decisions

- acceptable when firm uses ϕ @ Less prod. level.
- Fixed costs are Sunk cost.

> Outsourcing decision.

> Ethical & Non Fin. Considerations in decision making.

> Activity Based - C.V.P Analysis:-



Here it takes into account "Cost driver" &
No. of activities

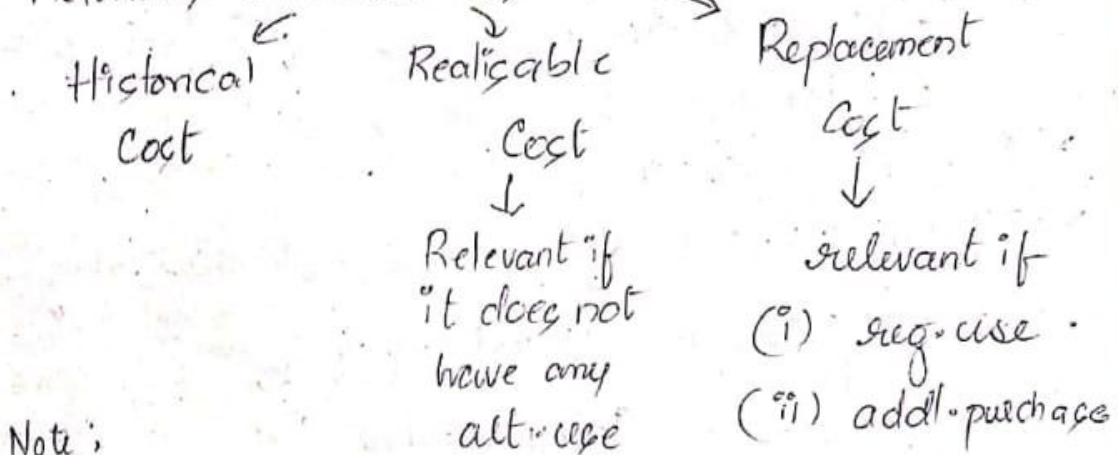
> COST BEP Refers to situation where total cost under 2 alternatives is same. which enables the mgmt to make decision at ~~of~~ alternative @ which max. output with low cost assuming sp. remain constant

Refers to a situation where ^{operating} cost under the both alternatives is same.

> Formulae for Cost BEP:-

$$\frac{\text{Difference in Fixed Cost}}{\text{Difference in Variable Cost}}$$

> Relevant/Irrelevant Cost



Note:

> General Overheads & absorbed overheads are irrelevant for decision making.

> Key factor / Limiting factor

Single key factor can be easily identified. However in case of multiple key factors we use linear programming technique to get best product mix that gain max. contribution