Marginal Costing

Advantages

1. Simplified pricing policy
2. Proper recovery of overheads
3. Shows realistic profit
4. How much to produce
5. More Control over expenditure
6. Helps in Decision making
7. Short term profit planning

limitations

1. Difficulty in classifying fixed & variable elements.
2. Dependance on key factors
3. Scope for low profitability
4. Faulty valuation
5. Unpredictable nature of cost
6. Ignores time factor & investment
7. Understating of WIP.

Marginal Cost Equation

Sales
(-) Variable Cost

Contribution
(-) Fixed Cost

Profit

PV ratio

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

or

$$\frac{\text{change in Contribution/Profit}}{\text{change in Sales}} \times 100$$

Contribution = Sales × PV ratio

$$\text{Sales} = \frac{\text{Contribution}}{\text{PV ratio}}.$$

Break Even Point in Units

$$\frac{\text{Fixed Cost}}{\text{Contribution/unit}}$$

Break Even Points in Value

$$\frac{\text{Total fixed Cost}}{\text{Contribution}} \times \text{Sales}$$

Break Even Point in Value

$$\frac{\text{Total fixed Cost}}{\text{PV ratio}}.$$

Cash Break Even Point

$$\frac{\text{Cash fixed Costs}}{\text{Contribution/unit}}$$

Margin of safety.

Projected sales - Breakeven Sales
(Total sales)

or.

$$\frac{\text{Profit}}{\text{PV ratio}}$$ ~~or~~