

TYBMM – Financial Management for Marketing & Advertising

Marginal Costing and Break-Even Analysis (15 Marks)

Important Formulas

Marginal Cost Sheet

Particulars	Rs.
Sales	XX
Less: Variable Cost	XX
CONTRIBUTION	XX
Less: Fixed Cost	XX
PROFIT / LOSS	XX

$$1) \text{P/V Ratio (Profit Volume Ratio)} = \frac{\text{Contribution}}{\text{Sales}} \quad \text{OR}$$
$$= \frac{\text{Difference in Profit}}{\text{Difference in Sales}}$$



(Note - This formula have only when data of two years or two time periods has been given)

$$2) \text{ Break Even Sales (in Rs.)} = \frac{\text{Fixed Cost}}{\text{P/V Ratio}}$$

$$\text{Break Even Sales (in Units)} = \frac{\text{Fixed Cost}}{\text{Contribution per unit}}$$

$$3) \text{ Margin of Safety (in Rs.)} = \text{Actual Sales (in Rs.)} - \text{Break Even Sales (in Rs.)}$$

$$\text{Margin of Safety (in Units)} = \text{Actual Sales (in Units)} - \text{Break Even Sales (in Units)}$$

$$4) \text{ Sales to earn profit of Rs. } _____ = \frac{\text{Fixed Cost} + \text{Target Profit}}{\text{P/V Ratio}}$$

$$5) \text{ Profit at Sales of Rs. } _____ = (\text{Sales Revenue} \times \text{P/V Ratio}) - \text{Fixed Cost}$$